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HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1-29

1964-65

Public Accounts, Volumes I, II and III (1962)

THURSDAY, APRIL 30, 1964

TUESDAY, MAY 26, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,	Grafftey,	Ricard,
Beaulé,	Gray,	Rinfret,
Berger,	Hales,	Rochon,
Cameron (<i>High Park</i>),	Harkness,	Rock,
Cameron (<i>Nanaimo-</i>	Lessard (<i>Saint-Henri</i>),	Rondeau,
<i>Cowichan-The Islands</i>),	Loiselle,	Ryan,
Cardiff,	Mandziuk,	Scott,
Chaplin,	McLean (<i>Charlotte</i>),	Skoreyko,
Côté (<i>Chicoutimi</i>),	McMillan,	Smith,
Crouse,	McNulty,	Southam,
Drouin,	Muir (<i>Lisgar</i>),	Stefanson,
Dubé,	O'Keefe,	Tucker,
Eudes,	Pigeon,	Valade,
Fane,	Pilon,	Wahn,
Forbes,	Regan,	Whelan,
Frenette,	Richard,	Winch—50.
Gendron,		

M. Slack,

Clerk of the Committee.



1048673

ORDERS OF REFERENCE

HOUSE OF COMMONS,
FRIDAY, April 10, 1964.

Resolved,—That the following Members do compose the Standing Committee on Public Accounts:

Messrs.

Baldwin,	Gendron,	Ricard,
Basford,	Grafftey,	Rinfret,
Beaulé,	Gray,	Rochon,
Berger,	Hales,	Rock,
Cameron (<i>High Park</i>),	Harkness,	Rondeau,
Cameron (<i>Nanaimo-Cowichan-The Islands</i>),	Lessard (<i>Saint-Henri</i>),	Ryan,
Cardiff,	Loiselle,	Scott,
Chaplin,	Mandziuk,	Skoreyko,
Côté (<i>Chicoutimi</i>),	McLean (<i>Charlotte</i>),	Smith,
Crouse,	McMillan,	Southam,
Drouin,	McNulty,	Stefanson,
Dubé,	Muir (<i>Lisgar</i>),	Tardif,
Eudes,	O'Keefe,	Tucker,
Fane,	Pigeon,	Valade,
Forbes,	Pilon,	Wahn,
Frenette,	Regan,	Whelan,
	Richard,	Winch—50.

(Quorum 15)

WEDNESDAY, March 11, 1964.

Ordered,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to it by the House; and to report from time to time its observations and opinions thereon, with power to send for persons, papers and records.

MONDAY, May 4, 1964.

Ordered,—That the Standing Committee on Public Accounts be empowered to print such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; that its quorum be reduced from 15 to 10 Members and that Standing Order 65(1)(e) be suspended in relation thereto.

FRIDAY, May 22, 1964.

Ordered,—That the Reports of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the Standing Committee on Public Accounts in order to provide for a review thereof pursuant to section 23 of the Canada Council Act.

FRIDAY, May 22, 1964.

Ordered,—That the Public Accounts, Volumes I, II and III for the fiscal years ended March 31, 1962 and March 31, 1963, and the Reports of the Auditor General thereon, tabled on January 21, 1963 and on February 19, 1964 respectively, together with the financial statements of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963 and the Reports of the Auditor General thereon, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the Standing Committee on Public Accounts.

Attest.

LÉON J. RAYMOND,
The Clerk of the House

REPORT TO THE HOUSE

FRIDAY, May 1, 1964.

The Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

Your Committee recommends:

1. That it be empowered to print such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto;
2. That its quorum be reduced from 15 to 10 members and that Standing Order 65 (1) (e) be suspended in relation thereto.

Respectfully submitted,

G. W. BALDWIN,
Chairman

(Note,—This Report was concurred in by the House on Monday, May 4.)

MINUTES OF PROCEEDINGS

THURSDAY, April 30, 1964.

(1)

The Standing Committee on Public Accounts met this day at 11.05 o'clock a.m. for organization purposes.

Members present: Messrs. Baldwin, Berger, Cardiff, Côté (*Chicoutimi*), Crouse, Dubé, Fane, Forbes, Frenette, Gendron, Lessard (*Saint-Henri*), Loiselle, Mandziuk, McLean (*Charlotte*), McMillan, Pilon, Rinfret, Rock, Rondeau, Scott, Southam, Stefanson, Tucker, Wahn, Whelan, Winch—(26).

The Clerk attending, and having called for nominations, Mr. Berger moved, seconded by Mr. Loiselle, that Mr. Baldwin be elected Chairman of the Committee.

There being no further nominations, Mr. Baldwin was declared elected as Chairman.

Mr. Baldwin thanked the Committee for the honour conferred on him and then referred to the objective and excellent press coverage of last year's committee sittings.

On motion of Mr. Lessard (*Saint-Henri*), seconded by Mr. Tucker, Mr. Tardif was elected Vice-Chairman.

On motion of Mr. Stefanson, seconded by Mr. Forbes,

Resolved,—That a Sub-Committee on Agenda and Procedure comprised of the Chairman and six members to be named by him, be appointed.

On motion of Mr. Loiselle, seconded by Mr. Lessard (*Saint-Henri*),

Resolved,—That permission be sought from the House to print such papers and evidence as may be ordered by the Committee.

On motion of Mr. Berger, seconded by Mr. Crouse,

Resolved,—That the Committee print 700 copies in English and 300 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Rock, seconded by Mr. Southam,

Resolved,—That the Committee recommend to the House that its quorum be reduced from 15 to 10 members.

Mr. Fane suggested that the Chairmen of the various select committees meet and organize their sittings in such a manner as to prevent numerous committee meetings at the same time.

Following a brief discussion concerning future proceedings, the Committee adjourned at 11.20 a.m. to the call of the Chair.

TUESDAY, May 26, 1964

(2)

The Standing Committee on Public Accounts met this day at 9.30 a.m. The Chairman, Mr. G. W. Baldwin presided.

Members present: Messrs. Baldwin, Cardiff, Côte (*Chicoutimi*), Crouse, Fane, Forbes, Gray, Hales, Harkness, Lessard (*Saint-Henri*), Mandziuk, McLean (*Charlotte*), McMillan, O'Keefe, Regan, Ricard, Rinfret, Rock, Skoreyko, Southam, Stefanson, Tardif, Tucker, Wahn (24).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Long, Millar, Stokes, Smith, Douglas, Crawley, Chapman and Laroche of the Auditor General's office.

The Chairman, after a brief introductory statement, announced the composition of the Subcommittee on Agenda and Procedure as follows: Messrs. Baldwin, Tardif, Ryan, McMillan, Hales, Winch and Côté (*Chicoutimi*).

The oral report of the Subcommittee on Agenda and Procedure was then presented by the Chairman, recommending that the Committee sit on Tuesdays and Thursdays at 10.00 a.m. and that permission be sought from the House to establish subcommittees.

After discussion, Mr. McMillan moved, seconded by Mr. Forbes,

Resolved.—That the Committee sit at 10.00 a.m. on Tuesdays and Thursdays and that the Chairman of this committee meet with the Chairman of the Special Committee on Defence to co-ordinate hours of sitting.

On motion of Mr. Hales, seconded by Mr. Tucker,

Resolved.—That the Committee be empowered to appoint sub-committees, to fix the quorum of any such sub-committee and to refer to such sub-committees any of the matters referred to the Committee; that any such sub-committee so appointed have power to send for persons, papers and records and to examine witnesses; to sit while the House is sitting, to adjourn from place to place, and to report from time to time to the Committee.

The Committee recessed at 9.50 a.m. in order to proceed to the House to hear Mr. U. Thant, Secretary-General of the United Nations, and agreed to reconvene at 11.00 a.m. this day.

The Committee resumed at 11.05 a.m.

Members present: Messrs. Baldwin, Berger, Cardiff, Forbes, Mandziuk, Regan, Rinfret, Rock, Southam, Stefanson, Tardif, Tucker, Wahn (13).

In attendance: Same as at 9.30 a.m. sitting.

The Chairman introduced Mr. A. M. Henderson, who made a brief statement on matters to be considered by the Committee and referred to the function and role of the Auditor General.

Mr. Henderson then introduced his senior officers as follows: Messrs. Long, Millar, Stokes, Smith, Douglas, Crawley, Chapman and Laroche.

The Committee then proceeded to the consideration of the "Follow-Up Report by the Auditor General on the action taken by departments and other agencies in response to recommendations made by the Committee in 1963".

On motion of Mr. Regan, seconded by Mr. Stefanson,

Resolved,—That the Follow-Up Report of the Auditor General be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix*).

Mr. Henderson supplied additional information on the three introductory paragraphs, followed by a statement on "Office of the Auditor General" dealing with staff recruitment and was questioned thereon.

After discussion on "The Form of the Public Accounts", on motion of Mr. Wahn, seconded by Mr. Berger,

Resolved,—That the Steering Committee discuss the advisability of setting up a subcommittee to consider the form of the Public Accounts and report their recommendation to the Main Committee.

At 12.05 p.m., the Committee adjourned until 10.00 a.m., on Thursday, May 28.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, May 26, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. May I welcome you here.

My remarks will be very brief, because I hope we will complete certain recommended business and then be able to have a few minutes discussion with regard to whether or not it is our wish to reconvene after we have adjourned before ten o'clock to hear the speech of the secretary general of the United Nations.

First, let me say how happy I am to have you all here, particularly so early in the morning. There is a large amount of work which this committee has in store for it during the ensuing series of meetings. I will not say anything more than that now, because of the pressure of time. However, to accentuate that point, I would ask our secretary, Mr. Slack, to read the orders of reference covering the matters the committee will have before it.

The COMMITTEE CLERK:

FRIDAY, May 22, 1964.

Ordered,—That the reports of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the standing committee on public accounts in order to provide for a review thereof pursuant to section 23 of the Canada Council Act.

FRIDAY, May 22, 1964.

Ordered,—That the Public Accounts, Volumes I, II and III for the fiscal years ended March 31, 1962 and March 31, 1963, and reports of the Auditor General thereon, tabled on January 21, 1963 and on February 19, 1964 respectively, together with the financial statements of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963 and the reports of the Auditor General thereon, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the standing committee on public accounts.

The CHAIRMAN: Thank you. You will see from these orders of reference that in addition to completing our examination of the 1962 Auditor General's report and the public accounts, we also have, of course, the same for 1963 and the examination of the financial statements and report in connection with the Canada Council for the two years. In addition, if time will permit, later on, as has been the practice of this committee in the past, we may take up one or two of the crown corporations, or more if time permits, which are included in volume III of the public accounts. Our terms of reference referring the public accounts to us for examination contain this right. This is a matter to which we will have to give some consideration later on when we see to what extent we are making progress. So, this accentuates the statement I made earlier to the effect that there is a large job for this committee during the ensuing period of this session.

May I now announce the composition of the subcommittee on agenda and procedure? Besides the Chairman it includes Messrs. Tardif, Ryan, McMillan, Hales, Côté (Chicoutimi), and Winch. In addition, under the same arrangement which prevailed last year, Mr. Beaulé will sit in on the meetings and report to his particular group with regard to the discussions of the steering committee.

Your steering committee met and made the following recommendations which I would ask you to consider now: first, that we meet on Tuesdays and Thursdays at 10 a.m. This is a change from last year when we met on Mondays and Fridays. Of course, there will be some conflict. It was the view of the steering committee that we put this forward for your consideration. I will ask you to consider it before we leave this morning.

In addition, we also thought it advisable to seek permission from the house to establish subcommittees. The reason is that it has been the experience of this committee that there are a number of matters which lend themselves well to treatment by subcommittees. I am thinking of such matters as the form of the estimates, matters relating to the manner in which the public accounts themselves are presented, and a lot of other items which can be well treated by means of small subcommittees sitting or meeting with the Auditor General or his officials and representatives from various departments concerned.

Now we tried this last year but with some doubt in my mind. There is a precedent which suggests that, while you can appoint a subcommittee, there is some doubt as to the validity of its deliberations and whether or not it has the right to hear witnesses, and receive documents. I only need to tell you that this goes back to 1942-1943 when the matter was considered. At that time the war expenditure committee decided to establish subcommittees to look into matters, and it was decided, as a result of advice received from officials, that it would be better to receive from the house itself authority to establish such subcommittees.

This was, therefore, the view of your steering committee when we met having in mind the many subjects and much work which we think can be more competently, efficiently and effectively carried on by means of subcommittees. The steering committee thought we should ask this main committee to make a recommendation to the house to receive such authority.

Is there any discussion on these two particular subject matters: first, that the committee should meet on Tuesdays and Thursdays at 10.00 a.m.? Perhaps we can deal with that item first.

Mr. McMILLAN: Mr. Chairman, I wonder if it has been considered meeting at 9.30 a.m. instead of 10.00 a.m. A number of us are on the defence committee and I think they intend to meet at 11.00 a.m. on Tuesdays and Thursdays, so we would have just an hour and one half to spend on each committee and there would be no overlapping.

The CHAIRMAN: You would be in good condition to go into the house. Thank you for the suggestion. I think it is an excellent one. Are there any further comments?

Mr. HARKNESS: In the case of committees meeting regularly, has there been any investigation of efforts to co-ordinate their times of meeting? It seems to me that something definite should be done along that line.

The CHAIRMAN: I am informed that it has been considered by the steering committee. You mean, has there been any co-ordination between the various committees?

Mr. HARKNESS: Yes.

The CHAIRMAN: I think it has been considered. I notice that the assistant government whip, Mr. Rinfret, is present today. Perhaps he could inform us if there has been any arrangement made to try to co-ordinate the various committees.

Mr. RINFRET: Yes.

The CHAIRMAN: We are heading in that direction.

Mr. ROCK: It does not look like it to me. The private bills committee is supposed to meet within half an hour, but because of the visit today of Mr. U Thant, it will not sit. I do not think we should leave it to the whips. There is a sizeable staff in the committees branch all situated in the same row of offices on the fourth floor, and surely they can always tell the chairmen "at this time we have this committee meeting, and that time we have that committee meeting". Surely they could bring up a proper type of schedule which we could go by.

The CHAIRMAN: Thank you.

Mr. ROCK: I think those members should recommend the times which are best for those meetings.

Mr. HARKNESS: Mr. Chairman I would suggest that the committees which are going to be meeting regularly at the present time are this committee and the defence committee as well as probably the external affairs committee. I do not know of any others. If the Chairmen of those committees could get together probably a schedule could be worked out so that there is a minimum of overlapping.

The CHAIRMAN: Thank you Mr. Harkness. We did have a meeting of the chairmen of committees last session toward the tag end.

Mr. LESSARD (*Saint-Henri*): I think that would be the best thing to do, Mr. Chairman.

The CHAIRMAN: May I take it, Dr. McMillan, you are in fact suggesting that we meet at 9.30 in the morning rather than 10 o'clock on Tuesdays and Thursdays?

Mr. McMILLAN: Yes, since there are other meetings to be held immediately afterward.

The CHAIRMAN: Yes.

Mr. FORBES: Mr. Chairman, Dr. McMillan has made that suggestion in view of the fact that he is a member of another committee. Surely the meetings of the various committees could be co-ordinated, as Mr. Harkness has suggested, and thereby obviate the necessity of meeting at 9.30. I am anxious to meet at 9.30 but when one sits in the House of Commons until 10.30 it is 11 o'clock before one arrives home and 9.30 the following morning arrives pretty early. I think we should co-ordinate the meetings of these committees so that we will not have them sitting at the same time and then from 10 o'clock in the morning would give us ample time to do the business we have before us.

The CHAIRMAN: Perhaps it would be best if someone made a motion to this effect, then if there is any discussion or desire to amend it we can do so.

Mr. McMILLAN: I should like to move that the chairmen of the defence committee and public accounts committee meet in an attempt to co-ordinate the hours of sittings in view of the fact there are a number of members of this committee who are members of the defence committee as well.

The CHAIRMAN: Would you also suggest that we should meet at 10 o'clock on the day of our next meeting and then arrive at some decision?

Mr. McMILLAN: Yes, and I think we should have some co-ordination.

The CHAIRMAN: Would you include that suggestion in your motion?

Mr. McMILLAN: Yes.

The CHAIRMAN: Is there a seconder to the motion?

Mr. FORBES: I second the motion.

The CHAIRMAN: Dr. McMillan has moved that we meet at 10 o'clock on Tuesdays and Thursdays and that the Chairman of your committee meet with the chairman of the defence committee and other committees in an attempt to co-ordinate the meetings so as to avoid over-lapping.

Mr. LESSARD (*Saint-Henri*): Mr. Chairman, I think the chairmen of all the committees should meet in an attempt to solve the problem.

The CHAIRMAN: I took the liberty of adding that suggestion to the motion made by Dr. McMillan.

Mr. ROCK: You are getting support, Mr. Chairman.

The CHAIRMAN: All those in favour of the motion?

Motion agreed to.

I declare the motion carried.

Our next subject involves permission from the House of Commons to establish subcommittees.

Mr. HALES: Mr. Chairman, I think that is an excellent idea which has proven in the past to be much better and allows committees to do the work with greater speed. As long as the subcommittees report back to the main committee before reporting to the House of Commons I see no danger of anything going through which is not approved of by the whole committee.

The CHAIRMAN: I think it would be obligatory that the subcommittees report to the main committee before any further report is made. There was some doubt in respect of the legality of subcommittees actually entertaining witnesses, hearing evidence and examining documents without having obtained the authority of the House of Commons to do so in the first instance. So that there is no doubt in this regard I am suggesting we should have a motion to this effect. I might say that the subcommittee on procedure and organization is considering this whole question and, without anticipating, it is my hope that that committee will come up with something in due course probably in the general order of a reference to all committees including the right to establish subcommittees. If I have approval for this suggestion can I take it you have moved this, Mr. Hales?

Mr. HALES: I will be glad to make that a motion, Mr. Chairman.

Mr. O'KEEFE: Mr. Chairman, in view of our experience last year in getting a quorum even for this committee how do you expect to be able to get a quorum for the subcommittees?

The CHAIRMAN: The subcommittees will be smaller, Mr. O'Keefe. They will consist of some three to six or seven members. There is not the same restriction on the times of their meeting because they can meet in between these meetings. The committee that sat on the form of the estimates sat for several weeks and sat in the evenings; I think there were seven members on that subcommittee and they needed four for a quorum.

Mr. TUCKER: I wish to second the motion.

Mr. REGAN: The subcommittees would deal with specific matters that would, in due course, be reported back to the full committee?

The CHAIRMAN: Yes.

Mr. REGAN: I think it is an excellent way to cover matters.

The CHAIRMAN: Matters that are technical in nature and which do not have the same necessity for publicity can well be covered by subcommittee. We do a tremendous amount of work in these subcommittees, as was proven last year.

Mr. Hales, may I read a motion which I took the liberty of drafting with the clerk?

That the committee be empowered to appoint subcommittees, to fix the quorum of any such subcommittee and to refer to such subcommittees any of the matters referred to the committee; that any such subcommittee so appointed have power to send for persons, papers and records and to examine witnesses; to sit while the house is sitting, to adjourn from place to place, and to report from time to time to the committee.

Mr. HALES: I am in agreement with that.

The CHAIRMAN: It is seconded by Mr. Tucker.

Are you ready for the question, gentlemen?

Will all those who are in favour of the motion please indicate. Contrary?

Motion agreed to.

Gentlemen, it is now a quarter to ten. Mr. Henderson has come here with a large number of his officials. We hope there might be some time to hear them after we have heard the secretary general of the United Nations at ten o'clock. I understand the secretary general's speech is to last for half an hour.

You have had handed to you the follow up report that will form the subject of our discussion. Is it your wish that we should reconvene and ask Mr. Henderson and his officials to come back here at a time which you think will be suitable? May I suggest eleven o'clock?

Mr. GRAY: Mr. Chairman, I think there is no reason why the committee should not reconvene, but I would like to point out that the Minister of Industry has invited members taking part in the designated area program to attend a special meeting in which the workings of the agency concerned are to be explained in some detail. I merely draw that to your attention though, of course, there may be many members of this committee who are not concerned with that.

Mr. FANE: The defence committee meets at eleven o'clock and some of us are concerned with that.

The CHAIRMAN: Would any members be free to come back here at eleven o'clock?

Some hon. MEMBERS: Yes.

The CHAIRMAN: It appears from the number of members who have just raised their hands that we will get a quorum. I suggest that we should get under way with the report at eleven o'clock, have it tabled, and have Mr. Henderson introduced in order to get the matter started. We have a great deal of work and we did find last year that we were rushing things at the end. I think there is too much importance attached to the material we are dealing with to try to rush it again. Are you agreeable to reconvening at eleven o'clock?

Agreed.

The meeting is adjourned until eleven o'clock this morning.

AFTER RECESS

The CHAIRMAN: The meeting is called to order. I thank you for your haste in getting back here as early as you all did so that we can make some progress with our deliberations.

First, might I introduce to you Mr. Maxwell Henderson, the Auditor General of Canada who appears before us in two capacities. It is his report which we consider with respect to the matters contained in his report; these are our points of embarkation in dealing with all of the subjects which we do discuss. In addition, Mr. Henderson and members of his staff are witnesses in the sense that they corroborate and amplify matters in the report on which members of the committee might wish to question them.

Very briefly, I might say that Mr. Henderson, who was born in England, has had a long and distinguished career as a chartered accountant both in industry and during various phases of government employment. He has been Auditor General since 1960, and during that time has brought down a number of reports in his capacity as Auditor General. As such he deals not only with the accounting end of it but with the parliamentary audit, to make sure that money is properly accounted for and is also spent in accordance with parliamentary directions. Mr. Henderson and members of his staff are usually with us continuously. I am going to introduce him to you now and ask him if he will, in turn, after he has made some comment, introduce the members of his staff who are here with him. All of the members of his staff are not with us on all occasions but only when we deal with a particular subject matter which invites their particular concern.

Mr. A. M. HENDERSON (*Auditor General*): Thank you very much, Mr. Chairman. It gives me particular pleasure, gentlemen, to appear before you again today at the commencement of the sittings of the committee, and, as the Chairman has said, it is in my official capacity as an officer of parliament that I am traditionally the adviser of this committee.

Before introducing the senior members of my staff who are with me here today, I should perhaps say a few words about the material that you have before you. As you know, the committee's last report was its fourth report 1963 presented to the House of Commons on December 19, 1963. In accordance with the standing instructions of the committee, I have prepared the usual follow-up report describing the action taken by the various departments, agencies and crown corporations on the committee's various recommendations made in this last report. This will be the first item of business on the agenda, and it will therefore give you an idea of the detailed matters with which you have to deal. The format of this particular report is designed to explain the details and the background of the points as simply as possible. You will notice that it deals with 21 subjects. In breaking these down you will perhaps have noted that I myself will be following up on nine of them, which is what the committee asked me to do in the regular course of my work, while 10 of the remaining 12 items were the subject of positive recommendation by the public accounts committee to the executive that they take remedial action of one kind or another. You will however have noted from perhaps the third paragraph on page one that of these 10 only three of the recommendations have been carried out so far by the departments concerned since you made your last report on December 19.

After considering the items in the follow-up report it is assumed I think that the committee will wish to carry on with its examination of my report for the fiscal year ended March 31, 1962. When the committee rose last December it had examined paragraphs 1 to 74 of that report, and also had dealt with paragraphs 84, 114 and 140. Presumably, Mr. Chairman, it will now wish to carry on with its examination from paragraph 75 to the end of this particular

volume, and after that turn its attention to my report for the fiscal year ended March 13, 1963 which, in accordance with the terms of reference of the committee which were read out early this morning, was tabled on February 19 last.

I should perhaps just say a brief word about the function and role of the Auditor General. As you know, he is an officer of parliament. His functions and responsibilities are outlined in part VII of the Financial Administration Act. By law he is entitled to free access at all convenient times to all files, documents and records relating to accounts of every government department, crown corporation and agency, and is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

Section 67 of the Financial Administration Act requires the Auditor General to examine in such manner as he may deem necessary the accounts relating to the consolidated revenue fund and to public property, and to ascertain whether in his opinion among other things money has been expended for the purposes for which it was appropriated by parliament, and the expenditures have been made as authorized.

Section 70 of the act requires the Auditor General to report to the House of Commons each year on the results of his examinations. Among the matters upon which he is specifically required to report in relation to expenditures is any case where any appropriation has been exceeded or was applied to a purpose or in a manner not authorized by parliament, and any case where an expenditure was not authorized or was not properly vouched or certified. In addition, he is required to report any other case that he considers should be brought to the notice of the House of Commons.

I should now like to take a moment to introduce to you the members of my staff who are here today. As the Chairman has mentioned, it is not proposed that we should attend in quite such force each of the sittings, but, generally speaking, I shall have my audit directors present when you are dealing with those matters which are their individual responsibility. On my right is Mr. George Long, C.A., who is acting assistant auditor general with a long and distinguished career in the audit office. He will be participating in all of the meetings with me. Next to Mr. Long is Mr. Millar, my audit director whose prime responsibility is handling all national defence operations, the crown corporations in that field, and his work now includes the Department of Industry and the Department of Defence Production. On Mr. Millar's right is Mr. Laroche, of our revenue audit branch, and Mr. Crowley who is in charge of all of the national revenue side of our work, that is to say customs and excise income, taxation, the Canadian mint, the Secretary of State, the post office, the exchange fund and various other areas. Next to Mr. Crowley is Mr. Chapman who deals with all of the responsibilities we have in the House of Commons, in the Senate, the central pay office, the superannuation branch, the civil service commission work, the external affairs department and the passport division. On Mr. Chapman's right is Mr. Douglas, my audit director in charge of our work in the Department of Citizenship and Immigration, the Department of Labour, the Department of National Health and Welfare, the Unemployment Insurance Commission, the Department of Veterans Affairs, and so on. On Mr. Douglas's right, is Mr. Smith, my auditor director in charge of the larger spending departments, to name a few the Department of Transport, the Department of Public Works, Public Printing and Stationery, the Department of Northern Affairs and National Resources, the National Research Council, the Department of Mines and Technical Surveys, and so forth. Finally, we have Mr. Arthur Stokes, who is my audit director in charge of such departments as agriculture, the Department of External Affairs, the Privy Council, the Secretary of State, Depart-

ment of Trade and Commerce, and the majority of the crown corporations which we examine and, as you know, they include some large ones.

That completes my introductions, Mr. Chairman, and perhaps will serve to give the members a brief idea of the way in which our office is organized and how we assign and go about our work. If there are any questions, I would be pleased to deal with them.

The CHAIRMAN: Has the committee any questions with regard to any of the functions of the various audit directors who have been introduced? This would be an appropriate time to ask any such questions. If not, possibly the committee might like to carry on in the way we have in the past by giving page by page and paragraph by paragraph consideration to the follow-up report which, as Mr. Henderson said, indicates the measure of success or lack of it which met the recommendations which the committee made last year. If there are no questions with regard to the personnel and functions of the gentlemen who have been introduced, let me say that we are very glad to have them here and that we look forward to having them again from time to time as we come to that part of our report to which we may direct our attention.

Is it your wish, gentlemen, that we start on the follow-up report and deal with this first? Have you all got copies of the follow-up report before you now?

Mr. SOUTHAM: How long is the committee sitting this morning? I have another short meeting which I wish to attend so that I will have to be excused, but I will come back if you are going to go on.

Mr. ROCK: I have to leave at 12 o'clock.

Mr. REGAN: So do I.

The CHAIRMAN: We might sit until 12 o'clock.

The follow-up report has been tabled. Would someone make a motion that it be printed as an appendix to today's proceedings?

Mr. REGAN: I so move.

Mr. STEFANSON: I second the motion.

Motion agreed to.

The CHAIRMAN: Mr. Henderson, would you mind turning to the follow-up report before us. I assume we might start on page one and deal with the various items. I think the first item is one of particular concern because last year, as an innovation, this committee asked the deputy ministers of the departments which were concerned in our report to advise the Auditor General within three months as to what action had been taken on matters on which the committee had made recommendations. I wonder if I might start off the proceedings by asking Mr. Henderson what written reports have been received by the department in response to this request of the committee.

Mr. HENDERSON: Not very many, I am afraid. However, in the absence of these, as I explain in the comments I make on each item, I have followed them up myself and in some cases was able to obtain a reply, in other cases I am still waiting for replies. However, I have sought to bring the members up to date as best I could in accordance with the instructions I received from the committee. I deal with each case in the comment section on the item, and you will notice in some cases I have quoted what the department has said, for example, in the case of reimbursement to servicemen for lease termination payments, what the deputy minister wrote to me on April 3. In other cases I have made inquiries and sometimes spoken to the deputy minister concerned. In those cases I advise you what he told me.

The CHAIRMAN: I suppose the inference behind this is that there has not been a very large and substantial compliance with the committee's request last year?

Mr. HENDERSON: It seems if we compare the three out of ten batting average this time with the previous one, which I think was 13 out of 25 or something of that nature, it is not as good as the previous one.

The CHAIRMAN: Gentlemen, have you any questions in respect of this particular aspect of the follow-up report.

Mr. WAHN: If we think it is desirable to achieve this end and if we knew of those who have not complied we could perhaps raise this question when the estimates of the various departments are before the house. Perhaps this would give an incentive for some to comply more fully in the future.

Mr. HENDERSON: I think Mr. Wahn has a good point. But, in all fairness, I am doubtful if all the departments read this as closely perhaps as they have done in the past. The report follows the same format but in the past I myself have written to each deputy minister while the follow-up report was being put together to ask them to bring me up to date. I think, in all fairness, they probably were waiting to hear from me instead of realizing this had been changed around. They were told to write to me within three months of December 19 and that, of course, led me to await hearing from them, and I suppose the responses fell between the two. However, we went after them in order that I might be able to give you an as up to date report as possible.

Mr. TARDIF: What excuses do they use for not replying?

Mr. HENDERSON: Well, they are busy people. These were the committee's definite instructions in the closing paragraph of its last report. A number were aware of it but, I suppose, they felt that the longer they left it the more up to date their information would be.

The CHAIRMAN: I will read the precise paragraph in this connection, namely paragraph 58 of our fourth report, which reads as follows:

The importance of maintaining parliamentary control over financial matters is the paramount concern of this committee. It is therefore expected that its recommendations will be given close attention by the departments, crown corporations and other agencies, and the committee requests that each deputy minister concerned advise the Auditor General within three months from this date as to what action has been taken on matters on which the committee has made recommendations in this report.

Mr. TARDIF: Is there not a method of having the deputy ministers concerned initial these reports to prove they have read them, or is this only for the benefit of the committee?

Mr. HENDERSON: They obtain minutes of the proceedings and I presume within their own departments they must have some follow up.

Mr. REGAN: Inasmuch as the past practice has been for the Auditor General to contact the deputy ministers, perhaps they had relied on the expectation of receiving such a letter. Would it not be worth while now for the Auditor General to write to those deputy ministers from whom he has not heard and then he can report to us at a later meeting what reaction he received.

Mr. HENDERSON: Mr. Regan, that could be done but you might care to go through the items first and see what specific comments you then would like to make in individual instances.

Mr. REGAN: Fine.

Mr. FORBES: Can we not request the deputy ministers to appear before the committee and ask their reasons for not replying?

Mr. HENDERSON: Certainly, sir, and you may want to do that after you have gone through the items in the follow-up report. You may wish to question several of them or do what you think best in the circumstances.

The CHAIRMAN: Gentlemen, most of them will be appearing at one time or another during the course of our deliberations and I think this is an excellent thing for members to keep in mind when putting questions. As I said, this is a point that could be raised later and, as Mr. Regan said, this should bring to their mind the necessity in the future of complying with our request.

Mr. TARDIF: Has the committee authority to make them comply with our request? You said we should try to make them.

The CHAIRMAN: Offhand, I would say we are limited to calling them before us as witnesses. As I appreciate it, the main force of the committee is in the amount of study it gives and the resulting publicity in respect of what the committee feels are matters which should concern us. We have no power other than to ask them to appear before us as witnesses and then, of course, the consequent report we make back to the house will be based on those views the committee has after hearing all the evidence and all the witnesses who appear before us.

Are there any further questions in respect of the first three paragraphs? If not, could we deal now with the next item, the office of the Auditor General, which starts in the middle of the first page.

Mr. HENDERSON: Under this heading I have set down the committee's action at its last meetings, from which you will note that I was asked to keep the committee posted in respect of whether or not the arrangement that was made is functioning to my satisfaction and is enabling me to recruit such officers and employees as are necessary for me to perform my duties.

I have set down the precise situation as it existed at the close of last month and indicated to you that as a result of delays which developed in the procedures of the civil service commission and the treasury board in connection with recommendations made by the commission about the revised rates of pay and new classes, little headway was made on the recruiting side with the result that since the arrangement was made I have secured a net increase of only two employees, still leaving 18 short of my establishment.

As the Chairman mentioned, this committee always has shown a keen interest in the staff problems of my office and I remain very grateful for the help and advice I have received from time to time from the Chairman and the members. At this time I am sorry I do not have more progress than this to report.

The CHAIRMAN: Mr. Henderson, do you feel that this shortage must necessarily be reflected, to some extent, in the work which you are directed by statute to carry on with regard to your examinations?

Mr. HENDERSON: I have said this, Mr. Chairman, in my last two reports to the House of Commons, my 1962 and 1963 reports. I have made it clear and I think you considered it at your last meeting in respect of the 1962 report, which you will be considering. The matter is covered in the preface and amounts to a qualification of the scope of my work which I must say to you again I regard very seriously. I pointed out in my 1963 report, and I quote:

As I stated in my report last year, there are altogether too many instances where staff shortages result in the audit office being unable to carry out its test examinations with sufficient frequency or in sufficient depth to achieve even the minimum standard required by modern accepted auditing practice.

I went on in that report to say that I looked forward to being able to report progress as a result of the arrangement made last November toward im-

proving the scope of my audit work during the now current year, 1964-65. But, I would be less than frank if I did not say to you that until my staff can be effectively brought up to strength and until what I would describe to you as red tape road blocks of the type mentioned here have been surmounted it will not be possible to report progress in bringing the scope of the work up to the minimum standard required by modern accepted auditing practice. As of today the recruitment outlook is good.

The secretary of my office who came to me from the Civil Service Commission following the arrangement made last November reported for duty on January 20 last and, as a result, we have received more effective service from the Civil Service Commission because they have decentralized their authority to him. He operates from my office and, I might say, part of that agreement was that in occupying the position of secretary in my office such a position would be created on my establishment, and that he would fill it; in other words, I would pay his salary. However, despite repeated requests which I have been making over the past six months and which I am still making, this has not been done yet. The officer continues to be on the salary roll of the Civil Service Commission. This is important to me because, as you know, I am anxious in knowing what the true costs of my operation are. Also, there is an important organizational question involved.

I have a letter in front of me from the treasury board, saying they cannot move on this because they are still awaiting replies to letters from the Civil Service Commission dated March 18 and March 24.

The other matter mentioned here was in respect of changes in my audit supervisors' rates of pay and salary, about which I have been inquiring for a long time. I was informed on May 20 that treasury board, in fact, had actually approved this on May 14 but we have not been advised as to the amount or given the details yet. They have not sent the minute or anything. And, May 14 was a fortnight ago.

Mr. TARDIF: Mr. Henderson, what would you recommend to remove these road blocks?

Mr. HENDERSON: I am doing my best to work them out. So long as my officer must function as it does this arrangement represents an improvement, and what I am giving you now is a progress report.

The original consideration which this committee brought to the matter was that being an officer of parliament my establishment should be removed from the jurisdiction of these regulatory bodies and that I should do my own recruiting. But, because of the various legal and other difficulties in the way, the chairman of the Civil Service Commission and I worked out this arrangement last November under the aegis of this committee. I am giving you this up to date report now in accordance with your request.

Mr. ROCK: You do not come under the jurisdiction of any minister?

Mr. HENDERSON: No.

Mr. ROCK: You are the Auditor General for the parliament of Canada?

Mr. HENDERSON: Yes.

Mr. ROCK: And, in respect of all departments you report to this committee and to parliament and, for this reason, you do not want your hands tied to the civil service. Indirectly, you also check on the civil service?

Mr. HENDERSON: That is a fact. It is my duty to check them as well as treasury board.

Mr. ROCK: So, you should not have to depend on them for recruitment; you should recruit your own staff as a separate body, and this is what you want.

Mr. HENDERSON: This is what I hoped would be the case, and this is what this committee, since 1960, has recommended be the case. But, because of the fact that none of the governments of the day had moved on that recommendation it came to a head, as you recall, last November, at which time Mr. MacNeill, the chairman of the Civil Service Commission, and I sat down and worked out this arrangement described in your last report. I am doing my utmost to make that work, and so is Mr. MacNeill.

There has been an improvement in the set-up by virtue of the reasons I described. But we have not been able to make the progress we hoped because of the delays I referred to in the third paragraph of my comments. However, I would like to have more time to work this out. I would express the hope that I might be given that additional time and, of course, report back to you later.

Mr. ROCK: I understand that you are short 18 persons?

Mr. HENDERSON: That is right.

Mr. ROCK: And that you have received only two.

Mr. HENDERSON: Over the six months period I have lost and gained persons, and have a net gain of two.

Mr. ROCK: Do you have difficulty in recruiting the proper staff; has the Civil Service Commission offered you any personnel that are suitable for your staff?

Mr. HENDERSON: Oh, yes. Through the good work of their representative, who, as I have explained, is now the secretary of my office, we are receiving more effective service, and the recruitment outlook is better. The salaries could be described as satisfactory, I think, and I am hoping that once the problems I have mentioned are out of the way, we can begin to show some improvement.

Mr. ROCK: Would you repeat the main problem that you would like to see out of the way?

Mr. HENDERSON: The clearance of the salaries of my audit directors. I only succeeded in having the general staff salaries cleared a few weeks ago. I, myself, have taken the matter up with the senior treasury board officials, and the minister kindly has interested himself in it. They have sought to help, but it seems that procedures take an unconscionably long time.

Mr. ROCK: You think it will be resolved?

Mr. HENDERSON: I hope so. I intend to keep after it as diligently as I can.

Mr. ROCK: You feel you will have these 18 vacancies filled within a year or so?

Mr. HENDERSON: I hope so, sir.

Mr. FORBES: You say that this condition of shortage of staff, and so on, has existed since 1960. Do you have a large backlog of auditing work in respect of the various departments? Has the work not been done, or is your present staff overworked?

Mr. HENDERSON: It is a combination of both. If your staff is inadequate, then you tend to cut back on the depth of your work or the frequency of your visits to the various departments. We make test audits based on the volume or the dollar size of the transactions. We are able to make tests only of these as you can appreciate. To the extent we are plagued with staff problems, we have to shorten those tests and in some cases not do them at all.

In 1962, the matter had reached the point where I felt it important I bring it to the attention of the house in my report, which I did. I do not feel I should disclose the extent to which those tests are inadequate, because, obviously, that would be inviting trouble. However, I have disclosed them to the respective ministers of finance so that they know in a general way where we are vulnerable.

Mr. REGAN: Mr. Henderson, would it be reasonable to assume that, even if these difficulties that you have, such as with the Civil Service Commission, were cleared away, you would still encounter considerable difficulty possibly in recruiting the number of personnel you need who have the qualifications which are prerequisite because of the competitive nature of the market for these people today, and the advantages that accrue to an auditor in commercial life, private business, and the large companies? Do you feel, if these difficulties which you presently have are cleared away, that this would not necessarily be a full solution to your problem?

Mr. HENDERSON: I would not anticipate that we would have difficulty competitively with private firms. Our salary structure today is quite competitive with theirs, I think. In the higher levels or echelons, however, service in the government does not compete with service in the professions or in industry, as you know; but there is a good type of young man coming along who is anxious to obtain experience. This summer we have taken on some students for four months at our lowest salary level. These are students from universities, and we are impressed by their calibre and by the interest they are showing in the work. We are hoping that some of them later on will join us permanently.

Mr. RINFRET: How many students are involved?

Mr. HENDERSON: Seven, I think.

The CHAIRMAN: Are there any further questions on this particular item; if not, we might go on to the next item, the form of the public accounts. Have you any comment on this?

Mr. HENDERSON: As members of the committee are aware, this was the subject of a study by a subcommittee of this committee in 1961. As a result of that, the public accounts were brought out in three volumes which included a number of improvements. I have to say to you, as I said in my report to the house, that I think there is additional important information which usefully could be disclosed in the public accounts and, on the other hand, I think there is some material there which could be dispensed with. I do not have any precise recommendation to make to you just at this time on the subject.

The CHAIRMAN: Do you think that a further subcommittee study, having in mind the rather technical nature of this particular matter, might be appointed for the purpose of carrying on discussions between the subcommittee, your officials and officials of the treasury board.

Mr. HENDERSON: It is the comptroller of the treasury who is responsible for the preparation of the public accounts; possibly he might have some views on this. I have not discussed it with him lately.

In 1961 the subcommittee's considerations were very helpful, but frankly we did not make all the progress a number of us had hoped. You face the problem of the extent to which you might be prepared to cut back the listing of civil servant names and their salaries which, as you know, occupy a considerable amount of space in the public accounts; then there is the extent to which you would abbreviate contract listings and so forth, employees' travelling expenses and the like.

In our subcommittee discussions, when we got right down to it, we found there existed a certain reluctance to dispense with this or that listing, and it was difficult to obtain unanimity. It might be that with further discussion of those points we, in fact, could make some headway. I hope one of these days this will be done, but I thought I should say this to you to point up the kind of problem encountered. On the other hand, I myself have asked whether additional information could not be shown in the accounts. You will notice in the second paragraph I am able to report to you that one of my suggestions was adopted and the public accounts last year reported in respect of remissions

in much greater detail. I think the reporting of remissions, and the reasons for them, are matters of considerable importance.

The CHAIRMAN: Thank you. Are there any questions on this?

Mr. BERGER: I notice that you say that progress has been made and we seem to be headed in the right direction. So that we do not have to go back over what was done last year, could you indicate to us what still needs to be done by a subcommittee or this committee to speed up the work?

Mr. HENDERSON: You mean what a subcommittee could do?

Mr. BERGER: A subcommittee or the committee. You say progress has been made, and we seem to be headed in the right direction.

Mr. HENDERSON: In my report I have dealt with several. For example, as I say in the previous paragraph, I think there could be a more informative disclosure of accounts receivable due to the crown and inclusion of financial statements covering departmental operating activities. I hope those two suggestions will commend themselves to you. At this particular juncture, of course, you have the treasury paying particular attention to the recommendations of the royal commission on government organization. They are in the throes of seeing how far they can adopt recommendations like these.

The CHAIRMAN: I believe it is two years since this was done the last time.

Mr. HENDERSON: In 1961, I think.

The CHAIRMAN: As a result of the subcommittee's report, I believe various improvements were made in the form of the public accounts.

Mr. HENDERSON: Yes, sir.

The CHAIRMAN: And there are further improvements which could be made and the subject matter lends itself to a discussion by a subcommittee.

Mr. HENDERSON: Most certainly. If you feel you could tackle it, I think it should be done some time. I would hope that you could form a subcommittee and make some progress in considering this.

The CHAIRMAN: Would it be the wish of the committee that your steering committee meet and give some thought to the constitution of a subcommittee to deal with this matter?

Mr. ROCK: Do you not think it is a little early?

The CHAIRMAN: I thought we might leave it in the hands of the steering committee to consider and bring back a recommendation at a later stage.

Mr. HENDERSON: You might like to seek the advice of the Minister of Finance and the comptroller of the treasury in order to have their views.

Mr. WAHN: I think it would be in order to have the steering committee give some thought to this, and I would so move.

The CHAIRMAN: There is a motion by Mr. Wahn, seconded by Mr. Berger. Motion agreed to.

The CHAIRMAN: The motion is agreed to.

APPENDIX

FOLLOW-UP REPORT BY THE AUDITOR GENERAL TO THE STANDING
COMMITTEE ON PUBLIC ACCOUNTS ON THE ACTION TAKEN BY
DEPARTMENTS AND OTHER AGENCIES IN RESPONSE TO
RECOMMENDATIONS MADE BY THE COMMITTEE IN 1963

In paragraph 58 of its Fourth Report 1963, presented on December 19, 1963, the Committee requested each deputy minister concerned to advise the Auditor General within three months as to what action had been taken on matters on which the Committee had made recommendations in its report.

In paragraph 59 of the Fourth Report 1963 the Committee requested the Auditor General to report to it on the action taken by the various government departments, Crown corporations and other agencies toward implementing recommendations made by the Committee. This is my report on the current situation with respect to the various recommendations made by the Committee in the above mentioned Fourth Report 1963.

It will be noted from the comments that follow that action which the Committee might consider appropriate in the circumstances has been taken by the departments or other agencies concerned in three of the ten cases where recommendations had been made by the Committee in its Fourth Report 1963.

OFFICE OF THE AUDITOR GENERAL

Members of the Committee will recall that agreement was reached on November 22, 1963 between the Auditor General and the Chairman of the Civil Service Commission on the steps to be taken to achieve the objectives of the Auditor General in the area of recruitment, selection and negotiation with candidates for positions in his Office. While giving the Auditor General freedom to recruit staff, these steps contemplated adherence to the basic personnel policies and standards sought for the Canadian public service by the Civil Service Commission, and the Auditor General accepted the responsibility to see that this is maintained through the medium of effective liaison. In order to facilitate the achievement of these objectives, the Civil Service Commission agreed to second a senior employee from its staff to the staff of the Auditor General to handle his staff and administrative matters.

The Committee expressed its satisfaction at this arrangement whereby the Auditor General will in future be permitted to recruit and manage the staff of his Office, with the approval of the Treasury Board, and asked him to advise the Committee whether or not this arrangement is functioning to his satisfaction and enabling him to recruit such officers and employees as are necessary for him to perform his duties.

Comment by the Auditor General: The arrangement made on November 22, 1963 with the Civil Service Commission was not implemented until January 20, 1964 when the Civil Service Commission seconded the senior employee to my Office.

It will be recalled that the establishment approved for my office for 1963-64 is 179 employees whereas the actual working strength at November 30, 1963 was 159. The latter figure dropped to 157 because of two resignations but increased to 161 early last month when four new appointments were made. Consequently, we are still short 18 auditors.

This unsatisfactory situation is largely due to delays which developed in the procedures of the Civil Service Commission and the Treasury Board in

connection with the recommendations made by the Commission that revised rates of pay and new classes be established for the existing Auditor strength. This was not cleared finally by Treasury Board until May 4th last, while similar changes respecting my audit supervisors or directors have not been cleared yet.

I hope these delays will soon be behind us and we can recruit our staff up to its much needed strength.

THE FORM OF THE PUBLIC ACCOUNTS

The Committee expressed satisfaction that the Public Accounts volumes for the fiscal year ended March 31, 1961 had been arranged in the manner recommended by the Committee in its Fifth Report 1961 and that this arrangement had been continued in the Public Accounts for the year ended March 31, 1962.

The Committee noted that further consideration might be given to summarizing or reducing a number of the detailed listings in the Public Accounts so as to present more significant and relevant information to Parliament. It also felt that consideration might usefully be given to the inclusion of additional important information suggested by the Auditor General. However, as time had not permitted consideration of this by any sub-committee convened for the purpose, the Committee recommended that this be undertaken during the next session of Parliament.

Comment by the Auditor General: The Public Accounts volumes for the fiscal year ended March 31, 1963 (tabled on February 19, 1964) continued to be arranged in the manner recommended by the Committee in 1961. As I informed the House of Commons in my 1962 and 1963 Reports, additional important information should, in my opinion, be disclosed in the Public Accounts. Examples of this would include a more informative disclosure of accounts receivable due to the Crown and inclusion of financial statements covering departmental operating activities.

In my 1962 Report I suggested that explanatory statements should be given in the Public Accounts with respect to each remission granted by the Governor in Council. I am pleased to report that this suggestion has been adopted and in the Public Accounts for the year ended March 31, 1963 the remissions granted during that year have been reported in greater detail than in previous years.

THE FORM AND CONTENT OF THE ESTIMATES

It will be recalled that a Sub-Committee was appointed by the main Committee on November 15, 1963 under the chairmanship of Mr. Ian G. Whan to confer with officers of the Treasury Board and the Auditor General to review the form and content of the Estimates, including a report addressed to the Chairman on September 30, 1963 by the Secretary of the Treasury Board outlining changes proposed by the Treasury Board in the number and nature of votes in the annual Estimates. The Sub-Committee submitted its report on December 16, 1963 and on this basis the Committee made its Third Report to the House.

In its Third Report the Committee made the following immediate recommendations under paragraph 3:

- (a) Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.
- (b) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the

public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.

- (c) Presentation of additional information in the Estimates concerning the staff of all government departments and the Crown corporations and other public instrumentalities referred to under clause (b) above:
 - (i) the number of employees actually on the payrolls at the latest date available during the course of the Estimates preparation; and
 - (ii) brief notes explaining proposed major increases in the size of establishments.

Your Committee recommends the adoption of as many of the foregoing improvements as is practicable in the Main Estimates for 1964-65.

Comment by the Auditor General: The Main Estimates for 1964-65, tabled by the Minister of Finance on March 3, 1964, included adoption of the revised vote pattern proposed by the Treasury Board and approved by the Committee in its Third Report 1963 under (a) above. The major improvements I had suggested to the Committee in this vote pattern were adopted by the Treasury Board.

Supplementary financial information regarding Crown corporations and other public instrumentalities, recommended by the Committee under (b) above, and presentation of additional staff information called for under (c) above, were not included in the Main Estimates for 1964-65.

SECOND CLASS MAIL

Paragraphs 15 and 16 of the Fourth Report 1963 have reference to second class mail. The Committee noted that the revisions of second class rates which had been made were confined to two areas and would not result in more than one million dollars additional annual revenue. It was further stated that the deficit in second class mail was currently exceeding \$26 million per annum. The Committee further noted that this deficit cannot be reduced without a general upward revision of rates of postage on Canadian publications or by means of an annual grant from Parliament in an amount sufficient to cover the loss to the Post Office in handling second class mail.

The latter was a recommendation of the Royal Commission on Government Organization. The Committee stated that it believed early consideration should be given by Parliament to these alternatives and requested that the Auditor General keep the matter before Parliament in his annual Reports in order that subsequent Committees may give consideration to it.

Comment by the Auditor General: In accordance with the Committee's direction to me on this subject, I shall deal with it in my next Report to the House of Commons.

PRAIRIE FARM EMERGENCY FUND DEFICIT

In its Fifth Report 1961, the Committee, having regard for the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, recommended "that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund."

In reiterating this recommendation, the Committee in its Fourth Report 1963 expressed the hope that an amendment along these lines will be placed

before Parliament at an early date. In the meantime, the Committee requested that the Minister of Finance seek parliamentary approval by means of an Estimate item to cover any advances to the Prairie Farm Emergency Fund (that is, the deficit resulting from the Fund's operations) that are to be written off to expenditure for the year.

Comment by the Auditor General: In paragraph 46 of my Report to the House of Commons for the year ended March 31, 1963, I reported that the amount of such advances for that year, \$7,295,000, was treated as a deficit and had again been charged directly to expenditure. I again recorded my view that Parliament should be requested to appropriate funds to cover these deficits and thus provide an opportunity to Members of the House to review results of the Fund's operations.

It is accordingly gratifying to note that in Supplementary Estimates (E) for the year ended March 31, 1964 tabled on March 6, 1964, provision was made for the Fund's operating loss in that year as follows:

Vote 175c—Estimated amount required to recoup the Prairie Farm Emergency Fund to cover the net operating loss for the fiscal year ending March 31, 1964—\$1,940,000.

This item is included in Appropriation Act No. 2, 1964, assented to on April 6, 1964.

REIMBURSEMENT TO SERVICEMEN FOR LEASE TERMINATION PAYMENTS

In its Fourth Report 1963 the Committee had noted the recommendations made in its Fifth Report 1961 that the maximum period with respect to which reimbursement is made to members of the Forces for lease termination payments should be reduced to the equivalent of one month's rent in future. While the Committee took note of information received from the Department of National Defence that a guide was being issued for unit commanding officers, in the counselling of Service personnel with regard to the leasing of accommodation, it remained of the opinion that a further and more detailed inquiry should be made by the Committee at the next session.

Comment by the Auditor General: In response to my inquiry as to what action had been taken by the Department of National Defence on this matter, I was advised by the Deputy Minister of National Defence on April 3, 1964 as follows:

I refer to the requirement itemized in paragraph 58 of Votes and Proceedings of the House of Commons No. 115 of 19 December 1963, wherein each Deputy Minister is called upon to advise the Auditor General as to what action has been taken on matters on which the Standing Committee on Public Accounts has made recommendations in its Fourth Report.

The single recommendation in the report applicable to this Department is found at paras. 22-25 and concerns reimbursment to servicemen for lease termination payments. In this connection, the Department has issued a tri-service order which is a guide for unit commanding officers in the counselling of personnel in matters related to lease liability, and as well has amended regulations which provide for discretionary powers to be exercised by administrative officers in dealing with individual cases.

I first drew the attention of the House of Commons to the regulations governing reimbursement to servicemen for lease termination payments in my 1960 Report, noting that such outlays were being made up to a maximum of three months' rent.

The 1961 recommendation of the Committee that the maximum period be reduced in future to the equivalent of one month's rent was not adopted by the Department of National Defence. The general practice has continued to be to make reimbursement on the basis of the permissible maximum of three months' rent and, as stated in my last Report to the House, the outlay for these lease termination payments during the fiscal year 1962-63 amounted to \$670,000.

ADVANCES TO THE EXCHANGE FUND ACCOUNT

At its last meeting the Committee had been informed by the Deputy Minister of Finance that the report by the Minister of Finance, originally requested by the Committee in its Fifth Report 1961, had been drafted and approved by the then Minister. However, because of subsequent developments with respect to the valuation of the Canadian dollar, it appeared that the information contained in this report was out of date, and in addition the Deputy Minister felt he would like to see additional information included in such a report. Accordingly the Committee agreed that consideration of this item be deferred until the next meeting of the Committee.

Comment by the Auditor General: I am informed by the Deputy Minister of Finance that he expects to place a report by the Minister on this subject before the Committee during the current session.

UNEMPLOYMENT INSURANCE FUND

In its Fourth Report 1963 the Committee expressed the hope that when the Report of the Committee of Inquiry into the Unemployment Insurance Act (tabled in the House on December 20, 1962) is considered by Parliament, action will be taken to implement the Committee's earlier recommendation that the preparation of annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission, and that the statements should be reported upon by the Auditor General.

Comment by the Auditor General: No action has yet been taken. The Chief Commissioner of the Unemployment Insurance Commission has advised me that the Report of the Committee of Inquiry is still under study by the Government and that the Commission is awaiting the revision of the Unemployment Insurance Act which is expected to result from this study to provide the necessary legislation regarding the preparation of the annual financial statements for the Unemployment Insurance Fund.

In the meantime and pending provision of such a statutory direction, the annual financial statements of the Fund, approved by the Chief Commissioner, are being presented by him to me for examination and certification.

DEPARTMENTAL OPERATING ACTIVITIES

In its Fourth Report 1963, the Committee reiterated its belief that it would be desirable if financial statements reflecting the financial results of departmental trading or servicing activities were included in the Public Accounts, provided this could be done without undue cost or staff increases. It requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course.

Comment by the Auditor General: In accordance with the Committee's direction, I am continuing to keep the development of this objective under close surveillance and will deal with it in my next Report to the House of Commons.

BOARD OF GRAIN COMMISSIONERS

It will be recalled that ever since 1961 the Committee has expressed its concern that in each year since 1953-54 the expenditures of the Board of Grain Commissioners have exceeded its revenues by more than \$1,000,000, and the Committee recommended "that steps be taken to bring revenues and expenditures into balance". The Committee requested the Auditor General to keep this matter under review and to report to it in due course.

Comment by the Auditor General: The Deputy Minister of Agriculture has advised me that the question of revising fees for the mandatory inspection and weighing services has been a matter of continuing study. As a result the Board of Grain Commissioners for Canada has issued Circular No. 310 dated April 20, 1964 which in part states, "that effective August 1, 1965 the Board of Grain Commissioners proposes to amend its Regulations to increase inspection and weighing fees by fifty per cent, in order to enable the Board to meet expenditures involved in providing these services". I was further informed that the Board had in mind a revision of these fees in the present crop year, but due to the very narrow margin in which the grain trade was operating on contracts under the current international agreements, it was not considered equitable to announce changes after those contracts had been entered into.

SUBSIDIES

Consideration was given by the Committee at its last meeting to a listing prepared annually by the Treasury Board officers for the information of the Board showing the provision in the Estimates for grants, subsidies and special payments for the period 1959-60 to 1962-63, inclusive. The Committee requested that the figures on this listing be brought up to date by the officers for consideration at a subsequent meeting.

Comment by the Auditor General: I understand that the Secretary of the Treasury Board has brought the figures on this listing up to date and that they will be made available to the Committee during the current session.

THE CANADA COUNCIL

In its Fifth Report 1961 the Committee noted that it had been informed that profits realized and interest earned on the University Capital Grants Fund had not been allocated to the provinces or to the universities and recommended that the Council seek to conclude this matter without further delay. The Committee was informed by the Chairman and members of the Council that the Council, following advice from legal counsel, proposed to accept the 1956 census as a basis for distribution of the accumulated profits and interest earned, and also to accept the 'hotch-pot' or trust fund approach for this distribution.

Having been informed of the doubts expressed by the Auditor General and other legal counsel as to the propriety of the forgoing under subsection (2)(b) of section 17 of the Canada Council Act, the Committee postponed further consideration of this matter until the next session, at which time consideration would also be given by the Committee to its 1961 recommendation concerning the Council's need for increased resources for purposes of its work.

Comment by the Auditor General: I am informed that the Council is now using the 1956 census and the 'hotch-pot' or trust fund approach as the basis for the distribution of the accumulated profits and interest earned on the University Capital Grants Fund, and that this will be reflected in the accounts of the Canada Council for the fiscal year ended March 31, 1964.

AUDITOR GENERAL'S REPORT, 1961-62

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE, BY DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES

The Committee expressed interest in this summarized listing showing the numbers of employees authorized for the public service, by department, Crown corporations and other instrumentalities at the close of each fiscal year in comparison with the numbers at the close of the preceding year, and commended the Auditor General for assembling and furnishing such an informative listing for the purpose of explaining the second largest object of expenditure in federal spending.

In its Fourth Report 1963 the Committee requested the Auditor General to continue to prepare this comparative listing annually and, effective with his Report for the fiscal year 1963-64, to include therein a more detailed breakdown of the various departmental and Crown corporation establishments by divisions and sub-divisions together with the numbers of employees actually on strength at March 31st, for the purpose of showing the size of each establishment's organization on a still more informative comparative basis.

Comment by the Auditor General: A comparative listing prepared along the lines directed by the Committee will be included as an appendix to my Report to the House of Commons for the fiscal year ended March 31, 1964.

INTERNAL FINANCIAL CONTROL

The Committee expressed interest in the comments of the Auditor General regarding the importance of adequate internal financial control in departments and Crown corporations, particularly the need for more effective use being made of staffs engaged in internal auditing work.

In its Fourth Report 1963 the Committee requested the Auditor General to continue his examinations into this important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.

Comment by the Auditor General: In accordance with the Committee's direction, I am continuing my examination into this important area and will be reporting to the House of Commons further on the subject in my next Report.

GOVERNMENT CONTRIBUTIONS NOT MADE TO SUPERANNUATION ACCOUNTS

The Committee was concerned to note that no contributions had been made to the Public Service Superannuation Account, the Canadian Forces Superannuation Account or the Royal Canadian Mounted Police Superannuation Account as required by their respective Acts to provide for increases in benefits payable as a result of salary and pay increases during the fiscal years 1960-61 and 1961-62. Evidence was given by the Deputy Minister of Finance to the effect that the Department felt that such increases were not in the nature of general pay increases as set out in the Statutes. As a consequence, no charges with respect to these liabilities were made to expenditure and the present considerable actuarial deficiencies in these superannuation accounts have continued to mount.

In its Fourth Report 1963 the Committee stated that it felt steps should be taken promptly by the Executive to remedy this situation and it urged the Minister of Finance to give the matter his early attention.

Comment by the Auditor General: In a statement to the House of Commons on March 6, 1964, the Minister of Finance mentioned several adjustments being made in the accounts for 1963-64 with regard to accumulated actuarial deficiencies in the various superannuation accounts. I addressed some questions concerning these adjustments to the Deputy Minister of Finance on April 27th last but have not yet received a reply to my letter.

ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS

The Committee noted with concern that a high incidence of error had continued in the Superannuation Branch of the Department of Finance involving both overpayments and underpayments of pensions on a continuing basis and also incorrect charges for contributory service. The steps that were being taken by the Department of Finance towards remedying this state of affairs were noted. The Committee requested the Auditor General to keep Parliament informed as to the progress being made.

Comment by the Auditor General: I shall continue to keep Parliament informed as to the progress being made in remedying this situation.

INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION

The Committee noted that the National Capital Commission remains in the position where it is required to pay interest on loans obtained from the Government of Canada for the purpose of acquiring property in the National Capital Region, and that funds to meet the interest payments themselves must be provided through parliamentary appropriations because the property held does not yield sufficient revenue. It further noted that parliamentary appropriations may be required to provide funds through the National Capital Fund in order to pay off the amounts of the loans made.

Since outlays on properties such as these are expenditures of the Crown rather than income-producing investments, the Committee believed that it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years, and it recommended that the Executive review the present practice with the National Capital Commission with a view to placing the financing of the Commission on this more realistic basis.

Comment by the Auditor General: I am informed by officers of the National Capital Commission that they are not aware of any such review having been commenced yet.

INDIRECT COMPENSATION TO CHARTERED BANKS

In considering the question as to whether or not the balances maintained by the Government of Canada with the chartered banks interest-free to the level of \$100 million constitute indirect remuneration, the Committee was assisted in its deliberations by the Deputy Minister of Finance who outlined the arrangement which has been in effect since January 1, 1957 whereby the banks pay interest to the Government of Canada on the amount by which minimum weekly balances are in excess of this sum.

The Committee in its Fourth Report 1963 stated it was in agreement with the view of the Auditor General that this arrangement does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act. The Committee believed that if the banks are to be compensated for services provided to the Crown,

consideration should be given to the most equitable manner in which this may be done with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

Comment by the Auditor General: Notice was given by the Minister of Finance in the House of Commons on April 13, 1964 concerning the introduction of a measure to amend the Bank Act to extend by one year to July 1, 1965 the authority to carry on business for the banks to which this Act applies.

In a statement to the House of Commons on May 6, 1964 the Minister said it was his hope that a Bill relating to the decennial revision would be presented in the late fall of 1964.

LIVING ALLOWANCES TO FEDERALLY APPOINTED JUDGES

The Committee noted that in cases where federally-appointed judges are appointed from time to time as conciliators or arbitrators on boards, they are paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs.

The Committee stated in its Fourth Report 1963 that it was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It therefore recommended that if additional remuneration was to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought.

Comment by the Auditor General: Although I have not been advised directly by the Deputy Minister of Labour, I am informed that living allowances of \$60 per day continue to be paid by the Department to judges appointed as conciliators or arbitrators on boards in addition to their actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs.

UNEMPLOYMENT ASSISTANCE

In the course of its consideration of the problems arising from the administration of the Unemployment Assistance Act, the Committee was assisted in its review by the Deputy Minister of Welfare who referred at length to the problems encountered in administering this legislation across Canada.

The Committee stated in its Fourth Report 1963 that it shared the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them, and to remove ambiguities in the present law which have resulted in varying interpretations. The Committee believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field.

Comment by the Auditor General: As the Members of the Committee are aware, changes in the legislation governing the federal-provincial public assistance programs administered by the Department of National Health and Welfare have been under consideration for some time. On February 14 and 15, 1964, in compliance with recommendations in the joint communique of the conference of the Prime Minister and provincial Premiers in November 1963, the Deputy Minister of Welfare and the provincial Deputy Ministers of Welfare met as a working group in Ottawa to consider problems over the whole range of federal-provincial shared welfare programs.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Public Accounts, Volumes I, II and III (1962)

TUESDAY, JUNE 2, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,	Grafftey,	Ricard,
Beaulé,	Gray,	Rinfret,
Berger,	Hales,	Rochon,
Cameron (<i>High Park</i>),	Harkness,	Rock,
Cameron (<i>Nanaimo-</i>	Lessard (<i>Saint-Henri</i>),	Rondeau,
<i>Cowichan-The Islands</i>),	Loiselle,	Ryan,
Cardiff,	Mandziuk,	Scott,
Chaplin,	McLean (<i>Charlotte</i>),	Skoreyko,
Côté (<i>Chicoutimi</i>),	McMillan,	Smith,
Crouse,	McNulty,	Southam,
Drouin,	Muir (<i>Lisgar</i>),	Stefanson,
Dubé,	O'Keefe,	Tucker,
Eudes,	Pigeon,	Valade,
Fane,	Pilon,	Wahn,
Forbes,	Regan,	Whelan,
Frenette,	Richard,	Winch—50.
Gendron,		

M. Slack,
Clerk of the Committee.

REPORT TO THE HOUSE

WEDNESDAY, June 3, 1964.

The Standing Committee on Public Accounts has the honour to present its

SECOND REPORT

Your Committee recommends:

1. That it be granted leave to sit while the House is sitting.
2. That it be empowered to appoint sub-committees, to fix the quorum of any such sub-committee and to refer to such sub-committees any of the matters referred to the Committee; that any such sub-committee so appointed have power to send for persons, papers and records and to examine witnesses; to sit while the House is sitting, and to report from time to time to the Committee.

Respectfully submitted,

G. W. BALDWIN,
Chairman

(Note—This Report was concurred in by the House on the same day.)

MINUTES OF PROCEEDINGS

TUESDAY, June 2, 1964
(3)

The Standing Committee on Public Accounts met this day at 10.05 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Côté (*Chicoutimi*), Crouse, Drouin, Fane, Forbes, Harkness, Lessard (*Saint-Henri*), McLean (*Charlotte*), Muir (*Lisgar*), Pilon, Rinfret, Rock, Ryan, Southam, Stefanson, Tardif, Wahn, Winch (20).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Long, Douglas, Crowley, Chapman, Laroche, Laframboise and Millar of the Auditor General's office.

The Chairman referred to the cancellation of the sitting scheduled for Thursday, May 28, as Room 371 was not available.

On motion of Mr. Fane, seconded by Mr. Tardif,

Resolved,—That the Committee request permission to sit while the House is sitting.

On motion of Mr. Fane, seconded by Mr. Rinfret,

Resolved,—That notwithstanding the resolution of May 26, the committee sit at 9.30 a.m. on Tuesdays and Thursdays.

The Committee then resumed consideration of the "Follow-Up Report by the Auditor General on the action taken by departments and other agencies in response to recommendations made by the Committee in 1963".

Mr. Henderson supplied additional information and was questioned thereon, assisted by Mr. Douglas.

Mr. Henderson agreed to supply at the next sitting answers to questions by Mr. Winch relating to paragraphs dealing with "The form and content of the Estimates" and also "Prairie Farm Emergency Fund Deficit".

The Committee completed consideration of the Auditor General's Follow-Up Report and the Chairman advised that at its next sitting the Committee would further consider the 1962 Report of the Auditor General.

At 11.55 a.m., the Committee adjourned until 9.30 a.m. on Thursday, June 4.

M. SLACK,
Clerk of the Committee

EVIDENCE

TUESDAY, June 2, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. The meeting will come to order.

I have one or two very brief matters to bring up. Firstly, may I apologize for having cancelled the last meeting. This particular room is the nesting ground of the caucus of Her Majesty's loyal opposition. There was a meeting here last Thursday and unfortunately we could not obtain another room; also, the defence committee was meeting, so I had to cancel our meeting. I apologize for having to do that.

Secondly, you may recall the resolution passed at the last meeting. The committee authorized the report to be made to the house calling for the appointment of subcommittees along the lines of our discussion. I take the responsibility for the fact that in suggesting the resolution we included in it a provision that the subcommittees should have the power to sit while the house is sitting. Our main committee does not have that power, and I would suggest, with your approval, that you might like to amend the resolution to give the main committee power to meet while the house is in session. We did not find it necessary to use that power last year, and the only reason we suggest it is in the event we have witnesses here who are unable to complete their testimony in one sitting. Last year we did not sit at all while the house was in session, except on the occasion when we were preparing our report. This also is my hope this year.

According to your request, I was in touch with the chief government whip with regard to a meeting of the chairmen of committees to see whether we could integrate and arrange the respective committee meeting times so that there would not be too much overlapping. So far, such a meeting has not been held, but I believe such a meeting will be held. In the meantime, I did have a meeting with Mr. Hahn, the Chairman of the defence committee. A number of our members also are members of that committee.

Subject to your approval, he suggested, and I think it is a good idea, that the public accounts committee might meet from 9.30 a.m. until 11 a.m., and the committee on defence would meet from 11 o'clock on; in other words, one committee would follow the other. This would permit members to attend both committees. It would also mean that one room would be available in the morning for two committees. This is a small step we have made in an effort to permit members to attend both committees.

Mr. FANE: May I so move?

The CHAIRMAN: I would be glad if you would. There should be two separate motions; one with regard to meeting while the house is in session, if necessary, and the other with regard to the sittings.

Mr. LESSARD (*Saint-Henri*): Would the power to sit while the house is in session be for the subcommittee?

The CHAIRMAN: It would be for the main committee if required. Last year we did not have to do so, and I hope we will not have to do so this year; but it might be advantageous to have this power for the main committee as well as for subcommittees if such are established.

Mr. WINCH: As I think you know, I am most interested in the public accounts, but also in the defence committee. Is it my understanding that as

a result of your discussion with Mr. Hahn, the meetings of both will be held in the same committee room so that we can go from one to the other?

The CHAIRMAN: I think this is the general understanding. I have not looked at the *Votes and Proceedings* to see whether or not that has been carried out; but the idea is that we would meet from 9.30 a.m. until 11 a.m., and the defence committee would carry on in the same room as soon as we completed our sitting at 11 o'clock. I believe they would sit from 11 a.m. until 1 p.m. This is an attempt to work out some reconciliation of our conflicting times.

Mr. WINCH: What is the position now? The defence committee is called for 11 o'clock, and I believe they are meeting in a different room today.

The CHAIRMAN: I understand that their next meeting will be in the same room as ours.

Mr. FORBES: Out of some 265 odd members in the House of Commons, I think there should be sufficient members to go around so that there would be a quorum on all the committees without one group of members being the group which attends the committees. I believe this is an important committee. I know the last time I was on it, there was not enough time spent on this subject. I think this committee is important enough that we should meet a ten o'clock, be here at ten o'clock, and meet until 12 o'clock, or whatever hour is necessary in order to do a proper job with regard to the matters which come before us.

The CHAIRMAN: Might we have a formal motion that we ask the house for permission to sit while the house is sitting?

Mr. FANE: I so move.

Mr. TARDIF: I second the motion.

Motion agreed to.

The CHAIRMAN: Now, we might have a motion, or discussion first, on the subject of the times of our meetings. You have heard my comments and those of Mr. Forbes.

Mr. FANE: I would like to move that we sit at 9.30 a.m. on Tuesdays and Thursdays.

The CHAIRMAN: Would you suggest that be from 9.30 a.m. until 11 a.m.?

Mr. WINCH: Yes.

Mr. SOUTHAM: Mr. Chairman, there is considerable merit in what Mr. Forbes has said, but owing to the fact that this year we find ourselves in the position where members are sitting on both committees, I think we must compromise as you suggest. Possibly in the next session of parliament we might try to arrange it so that the same members do not have to sit on two committees on the same morning.

Mr. RYAN: In addition to having the meeting of the defence committee at the same hour, there will be inconvenience to some of us who have French lessons between 9 a.m. and 10 a.m. on Tuesday and Thursday mornings. Ten o'clock would be far more convenient, at least for a few of us.

The CHAIRMAN: Are there any further comments?

Mr. RINFRET: I second the motion.

The CHAIRMAN: The motion is that we sit from 9.30 a.m. until 11 a.m. on Tuesday and Thursday mornings.

Mr. Ryan, since you were not here when I mentioned this, I might explain that following a direction from the committee at the last meeting, I had a discussion with Mr. Hahn, the Chairman of the defence committee, in an effort to arrange for a staggering of the times of these two committees. This is the suggestion, and as I understand it, it has been approved by the defence committee. I said I would put the suggestion before the public accounts committee today for its approval. This is a suggested compromise. Is there any further discussion on this motion? Are you ready for the question?

Motion agreed to.

The CHAIRMAN: Now, there is one more thing before I call on Mr. Henderson. It has been brought to my attention by Mr. Forbes that a circular letter has been sent to members from the parliamentary secretary to the Minister of Public Works to the effect that next Thursday at ten o'clock there is a tour arranged by the National Capital Commission. I do not know whether or not it is your view that you wish to pass up this committee meeting in order to attend this tour, or whether you are prepared to carry on with our meeting. I mention this now so that if anyone thinks this should be discussed, we can do so.

Mr. TARDIF: I suggest, Mr. Chairman, that those who have not taken that tour before do so, and that the others attend our meeting.

The CHAIRMAN: I assure you that as much as I like to go on tours I will be here.

Mr. WINCH: I received this communication and I acknowledge it expressing appreciation of the invitation but saying that I thought there would be a meeting of the public accounts committee, and I declined the invitation.

Mr. FANE: I did the same thing.

Mr. RYAN: I did also.

The CHAIRMAN: I am glad to hear these expressions of loyalty to the public accounts committee. Perhaps we might proceed on the basis that the committee will be sitting on Thursday, and that we will have a quorum.

Gentlemen, Mr. Henderson and his officials are with us again. As you will recall, we had proceeded to discuss with him his follow-up report on our report the house last year, and had discussed the first item. We had got as far as the item appearing on page 2 which deals with the form and content of the estimates.

At this point I will call on Mr. Henderson to bring that matter up to date and tell us what has happened and what has been done.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman. Gentlemen, on page 2 of the follow-up report at the bottom of the page you will find the next subject, namely the form and content of the estimates. If you would turn over to page 3, in the comments section I advise you of the action taken. You will recall a subcommittee was established for the purpose of examining the form and content of the estimates, with particular reference to looking over the proposed adoption of a revised vote pattern which the treasury board had brought to the committee. These matters were discussed in the subcommittee under the chairmanship of Mr. Wahn. I now report to you that the major improvements I suggested to the subcommittee with regard to this vote pattern were adopted by the treasury board in the presentation of the main estimates for 1964-65.

This adoption relates to your recommendation under (a). With regard to (b), and (c), calling for supplementary financial information regarding crown corporations and other public instrumentalities, and the presentation of additional information in the estimates concerning staff of government departments, this information was not included in the main estimates for 1964/5.

I think Mr. Wahn will recall that the secretary of the treasury board said it might not be practical to include these improvements in the main estimates for 1964-65; but I remain with the understanding, and I believe that would be your understanding, that the treasury board will be giving effect to these in the 1965-66 estimates. At least, that was the basis of the discussion. Is that your recollection, Mr. Wahn?

Mr. WAHN: Certainly the subcommittee recommended that. I cannot recall whether or not there was any commitment given by Mr. Steele on behalf of the treasury board, but certainly the subcommittee recommended that this presentation be carried through immediately, and the others in the future.

Mr. HENDERSON: Yes. There was a longer list of other changes which are dependent on the introduction of the program budgeting project, but these probably are not yet possible. In the meantime, the presentation of the supporting financial information regarding crown corporations might be brought in in some detail in the estimates. I am hoping treasury board will be able to do something along these lines in the 1965-66 main estimates when they bring them down.

The CHAIRMAN: Are there any questions on this particular item?

Mr. WINCH: With regard to the comment by the Auditor General in respect of the estimates, might I ask whether he has any authority to look into the purchases made under the estimates, which are then declared surplus and turned over to the crown corporation, without being used and sold, for about 10 per cent of their value? Does he have any check on that with regard to expenditures which are made after estimates are approved.

Mr. HENDERSON: Are you referring to sale of property?

Mr. WINCH: No, I am referring to the sale of any goods which have been purchased if they are included in the estimates. My point is with regard to estimates. If certain purchases are made and then the goods purchased are turned over to the Crown Assets Disposal Corporation without having been used, is the Auditor General able to check this?

Mr. HENDERSON: Where any instances of that nature come to our attention we certainly check them in the course of our test work. I am not very clear as to what you are referring to.

Mr. WINCH: I am referring to purchases made by government which must be authorized through estimates.

Mr. HENDERSON: That is right.

Mr. WINCH: Whether this year or going back over the years, if purchases are made on the authority of the house through the estimates, and if the equipment is not used and is then turned over to the Crown Assets Disposal Corporation unused and sold by Crown Assets Disposal Corporation, do you have any check on the purchase price authorized through the estimates and the selling price obtained by Crown Assets Disposal Corporation.

Mr. HENDERSON: Where we find transactions of that nature we most certainly check them and follow them through. We would not have any control, so to speak, over altering any of the bases of the transaction but we would certainly take note of them and if a loss were incurred we would doubtless draw attention to it. If there were cases in which material was not used we would follow it through.

Mr. WINCH: Perhaps I could put it in a different way. Does your auditing branch check sales of the Crown Assets Disposal Corporation on the purchase of something authorized through estimates which is declared surplus?

Mr. TARDIF: Is a check made by your department, for instance, of the difference between the cost of the material when purchased and the sale price when disposed of? I think that is Mr. Winch's point. Do you check to see whether the sale price is reasonable? Is that it, Mr. Winch?

Mr. WINCH: I am referring to materials authorized under the estimates.

Mr. HENDERSON: Yes, sir, we would check these. We would follow them through. If we found a sizeable loss had been suffered under that procedure we would ask questions about it.

Mr. HARKNESS: In transactions of that kind is the situation not that if the goods to be disposed of have a value of anything more than a fairly small amount they are put up for public tender?

Mr. HENDERSON: You mean by the Crown Assets Disposal Corporation?

Mr. HARKNESS: Yes.

Mr. HENDERSON: Yes, they do that but we are certainly interested in the source of all material that the Crown Assets Disposal Corporation is offering to the public because we are the auditors of the Crown Assets Disposal Corporation and, in going over their records, we are able to identify the material and see where it comes from.

Mr. WINCH: I am sorry if I have not made my point clear. This is relevant to estimates. I am referring to estimates which have been carried as a result of which purchases are made. Is there any follow up by you in regard to the Crown Assets Disposal Corporation if those materials that were bought under the authority of parliament are sold unused and brand new by the Crown Assets Disposal Corporation?

This matter is particularly in my mind because in the last three or four months I have been noting some of the sales by Crown Assets Disposal Corporation of goods which were bought under the authority of the estimates approved by parliament. It has come to my attention—if I may give you an illustration—that 32 pieces of laboratory equipment which were completely unused were sold for 10 per cent of their value. They were completely unused.

I think Mr. Harkness knows my point. What check do you have on the passage of estimates for the purchase of material which is sold when brand new by Crown Assets Disposal Corporation?

Mr. HENDERSON: My supervisor, Mr. Smith, who is in charge of this particular work is not here today; but with your permission I would like to follow this up and give you a statement on it at the next meeting. Would that be satisfactory? I see now precisely what you mean.

Mr. WINCH: The point to which I am referring is that I have in the last few months been reading a lot of the tenders sent out on material for sale. I would say that I have personally read about 150 pages and I have found brand new material being sold at sacrifice and junk prices. I am trying to tie it in now with the estimates and any follow through that your department might make. What is your follow through procedure between purchases made under the estimates and the sale of new material by the Crown Assets Disposal Corporation?

Mr. WAHN: Through you, Mr. Chairman, may I put a question to Mr. Winch? You have emphasized that this is new equipment that is being sold by the Crown Assets Disposal Corporation. Are you concerned that, or do you wish to be assured that, the Crown Assets Disposal Corporation is following proper procedures in selling assets turned over to it, or are you concerned with the possibility that new equipment is being bought under the authorization of the estimates, equipment which obviously was not required at all? It is obvious that it was not required because it was turned over unused to the Crown Assets Disposal Corporation. Is that your concern? In other words, are you concerned about the procedures followed by the Crown Assets Disposal Corporation generally in disposing of property, new or used, or are you concerned about the possibility that under the authority of the estimates equipment is being bought which really is not needed? Or are you concerned about both?

Mr. WINCH: I am concerned, Mr. Chairman, with what is before us; that is, the position of the Auditor General of Canada. Does he follow through purchases that have been made which were unnecessary or surplus—

Mr. HENDERSON: —or not required.

Mr. WINCH: I am referring to new equipment that is sold at junk prices, material that is sold at around 10 to 33 per cent of the price the Canadian taxpayers paid, material which was unnecessary to begin with. I am speaking

wholly and solely, sir, of the position of the Auditor General. Is there any follow through on what he finds? Does he find that new equipment bought by the government of Canada is being sold unused as surplus and that it has been bought unnecessarily? It is the Auditor General's point of view I am discussing at the moment.

Mr. HENDERSON: I appreciate your bringing this up. The problem is of direct interest to us as examination of such cases is my responsibility.

As a result of that I would like to discuss the matter with my supervisor, who is responsible, and then to report back at the next meeting, if that will be satisfactory to you.

The CHAIRMAN: May I make a suggestion, Mr. Winch? At the moment we are really concerned with the form of the estimates rather than the detail of them. During the course of the Auditor General's report dealing with Crown corporations we will be touching upon or at least we will have the opportunity to touch upon the Crown Assets Disposal Corporation itself. That might be the appropriate time for a more searching examination of this topic.

Mr. WINCH: You see my point, Mr. Chairman?

Mr. HENDERSON: Yes, it starts with the estimates.

Mr. WINCH: My point is that unnecessary purchases are being made and the goods purchased are then being sold through the Crown Assets Disposal Corporation, unused.

Mr. HENDERSON: Yes.

The CHAIRMAN: You are filing a caveat now as to your intentions in this matter?

Mr. WINCH: I would be very happy to give examples if required.

The CHAIRMAN: I feel it might be appropriate to deal with this when we are discussing this particular corporation among the other crown corporations.

Mr. HENDERSON: It perhaps goes a little further than that corporation, Mr. Chairman. I am very grateful to Mr. Winch for raising this question because it is just the sort of things we like to hear, and when we do hear of such things we like to take a particularly close look at them. The opportunity to report back will be very helpful.

Mr. HARKNESS: May I ask Mr. Henderson if this will be included among the supplementary financial information regarding crown corporations which were mentioned in his comments and which were not included in the main estimates for 1964-65.

Mr. HENDERSON: Only in total figures, Mr. Harkness. That supplementary financial information principally consists of the budgets which are prepared by the crown corporations supporting their total request for money.

Mr. HARKNESS: A matter of this nature would not come into that?

Mr. HENDERSON: Their intention to purchase would be contained in the figures but the figures would of course be only total figures. This is solely for the purpose of providing the members with some idea of what is behind the large figures that are sought by the crown corporations from parliament. It was felt that they could be usefully shown in the estimates detail in order that the members might be better informed.

Mr. McLEAN (*Charlotte*): Will the Auditor General be interested in the crown corporation if the crown corporation sells anything at public tender? You would not be interested in that, would you?

Mr. HENDERSON: In cases in which we are the auditors for the crown corporation we naturally carry out test checks to satisfy ourselves as to the propriety of the transactions and the source of the material they are selling.

Mr. FANE: Mr. Henderson, would you in your checking look to see why such material became surplus, why it was sold as new material and why it was over-bought in the first place?

Mr. HENDERSON: Yes, sir, we would do that through the medium of examining files and following the material back to source.

In the event that there was a case which I felt should be advised to the House of Commons it would appear in my report.

Mr. FANE: Very good, thank you.

The CHAIRMAN: Are there any other questions on that?

Mr. WINCH: If this is policy, then of course the Auditor General will so inform me; I am referring to your last comment dealing with the main estimates and then the second paragraph dealing with supplementaries.

Has any consideration been given to the possibility of a plan whereby purchases should be considered by the Auditor General with regard to their necessity before the House of Commons receives supplementaries and in cases where the House of Commons has laid down a specific amount?

Mr. HENDERSON: If I understand your question correctly you are asking if the treasury would submit such supplementary estimates to me for verification and report back to them. The answer to that is no; I have never received such requests.

Mr. WINCH: Because you only audit whatever has been spent?

Mr. HENDERSON: My audit is a post-audit.

The CHAIRMAN: Are there any other questions on that topic?

Mr. WINCH: I think I have a good idea there, Mr. Chairman!

Mr. HENDERSON: You suggested that I perhaps should not comment on policy, sir.

The CHAIRMAN: Are there any other questions on this item? May we pass to the matter of second class mail. I believe Mr. Forbes was about to ask a question.

Mr. FORBES: In view of your explanation I will leave it until we come to the Post Office Department and will then ask for my information in more detail.

Mr. HENDERSON: I shall be dealing with this in my next report to the House of Commons, which is what the committee asked me to do. You will recall that the deputy postmaster general was a witness before the committee last December.

The CHAIRMAN: Are there any further questions on that?

Mr. HENDERSON: With regard to the prairie farmers emergency fund deficit you will note my comment at the top of page four which indicates that action has been taken to implement my own recommendation and the committee's recommendation in its last report. I think you would probably regard this as a satisfactory solution of a subject that was rather long drawn out.

The CHAIRMAN: Members will recall that this was debated when the Minister of Agriculture brought down his supplementary estimates.

Are there any questions on this item?

Mr. WINCH: Just one, Mr. Chairman. I am not quite certain whether this is the correct time at which to introduce it. I would like, with your permission, to ask the Auditor General whether he audits the books of the farm fund relative to certain payments having been made which are now being challenged. Does he audit the books of those farm payments in the prairies? Does he audit those books and does he check whether or not the payments are in order?

Mr. HENDERSON: Yes. The audit of that fund is my responsibility.

Mr. WINCH: Do you check to find out whether the payments are in order?

Mr. HENDERSON: Yes, we make test checks of payments. We do not check them all but we make test verifications to the extent to which we are able.

Mr. WINCH: May I ask through you, sir, what was the result of the spot checks in the last two years of that fund?

Mr. HENDERSON: Mr. Winch, I do not have my supervisor, Mr. Stokes, who is responsible for this work, here this morning. I should like to discuss that with him before answering your question if I may.

Mr. WINCH: I note there is no report on that phase of expenditure of public funds. Do you anticipate that it will be in the next report? Is there a reason why it is not in this report?

Mr. HENDERSON: Yes, I would have reports in my office of the extent to which those checks have been carried out and results obtained.

Mr. WINCH: Will they be available to this committee?

Mr. HENDERSON: With your permission I would like to make a statement on this at the next meeting.

Mr. MUIR (*Lisgar*): Mr. Chairman, I think it would be rather hard to check. These payments are made after the recipient swears an affidavit to the effect that what he has said is true. I do not think one would go into the field and check these, would one?

Mr. HENDERSON: That would depend on the type of program that we carry out, Mr. Muir. I will deal with that in the report that I propose to give to Mr. Winch on this matter.

Mr. TARDIF: Under what title are these payments referred to?

Mr. MUIR (*Lisgar*): Prairie farm assistance.

Mr. HENDERSON: Prairie farm assistance payments.

Mr. TARDIF: Are they acreage payments?

Mr. MUIR (*Lisgar*): No.

Mr. TARDIF: I do not know too much about prairie farming.

Mr. HENDERSON: The nature of the payments is fully described in both my 1962 and 1963 reports.

Mr. FORBES: How would the auditor determine the validity of the payments?

Mr. WINCH: That is a point in which I am interested because the Auditor General is responsible to the House of Commons for the correct expenditure of public funds which are authorized. That is the reason I asked whether he had made the check or whether he had any report.

Mr. FORBES: I am asking the Auditor General how he does it.

Mr. HENDERSON: That will be contained in the report I propose to give to Mr. Winch after I have discussed it with the supervisor who is responsible for this matter.

Mr. WINCH: You appreciate that to members of the House of Commons this is a most serious matter. We would appreciate having a report from the Auditor General who is responsible to the House of Commons.

Mr. HENDERSON: Yes, sir.

The CHAIRMAN: Are there any further questions on this topic?

Mr. HENDERSON: Mr. Tardif may like to know that on page 16 of my 1962 report I give an outline of prairie farm fund operations.

Mr. MUIR (*Lisgar*): For Mr. Tardif's information, this is the prairie farm assistance fund which is made up of one per cent of the sales of all the grain

in western Canada that is delivered to the elevators. Any deficit is paid from the treasury.

Mr. WINCH: I want it clearly understood that I am not questioning the act itself or its authority. Can the Auditor General tell us whether or not they are being made in accordance with the act?

The CHAIRMAN: I think when we come to the Auditor General's report we will be dealing with 1962 and 1963.

Mr. HENDERSON: I propose to make a report in respect of Mr. Winch's question.

The CHAIRMAN: Are there any other questions on this item? May we pass to the item reimbursement to servicemen for lease termination payments which appears on page 4.

Mr. HENDERSON: Mr. Chairman, the members of the committee will recall that this committee felt that possibly more detailed inquiries should be made into this matter in the now current session. I received a letter from the deputy minister of national defence on April 3, the text of which I quote in my comment. This is a matter which I have brought forward since 1960, and the committee has in the past expressed its views on this, particularly its recommendation in 1961 that the maximum period be reduced in future to the equivalent of one month's rent. However, as you will observe, this has not yet been adopted by the Department of National Defence.

Mr. WINCH: Over the years since 1960 there always has been a definite recommendation from this public accounts committee, and under the circumstances I feel we should ask a responsible person from the Department of National Defence to appear before us to explain why since 1960 the unanimous recommendation of this committee has not been adopted.

The CHAIRMAN: I would certainly think this should be done. There will be this and other items that the Department of National Defence will be interested in, and we would hope a responsible person from that department will appear before us.

Mr. WINCH: This is one of the most important committees of the House of Commons, and surely when over the years a continuous recommendation from this committee is not adopted, the committee is entitled to know the reason therefor.

The CHAIRMAN: Are there any further questions on this item?

Mr. SOUTHAM: I think Mr. Winch has a very valid suggestion. This topic was under considerable discussion last year; I think I, myself, commented on it. In the meantime I have discussed this with personnel of the armed forces themselves in order to have their comment. I believe they are in agreement that in peacetime there is no necessity to have this. They are in a sort of frustrated position when, at the last minute, they have to move, are transplanted and not given an opportunity to make plans in connection with their family life, and so on. They feel that at least three months' notice should be given to the members of the armed forces before a move is made. This would give the Department of National Defence time to make arrangements, and consequently the payment of two months' rent would be unnecessary. I think this is something which should be followed up.

The CHAIRMAN: Is there any further discussion on this point? Mr. Winch, you are on the steering committee, and certainly we will take steps to consider a suggestion to the main committee that at the appropriate time we call someone from the department to appear here.

Mr. WINCH: And that an explanation be given of why they defied the authority of this committee.

The CHAIRMAN: Shall we pass to the item advances to the exchange fund account on page 5?

Mr. HENDERSON: This paragraph, Mr. Chairman, had reference to the statement made by the deputy minister of finance last December to the effect that he was hopeful of being able to bring forward a report on this subject by the minister during this now current session. From what he has told me, I believe he is readying that report to bring it to the committee.

The CHAIRMAN: Are there any questions on this item? We will go on to unemployment insurance fund.

Mr. HENDERSON: As you will see here, that although the act has not yet been amended, I am proceeding to examine the annual financial statements of the fund, and I am attaching my certificate to them and they are appearing on that basis in the public accounts. All we are waiting for here is the formalization of this as a part of the statute itself when the act is opened up for amendment.

Mr. WINCH: What kind of a check do you make on the unemployment insurance fund in its application? In other words, what is the spot check that you take of the hundreds of persons who draw from it in an effort to ascertain whether or not it is being abused?

Mr. HENDERSON: I am glad to say I can give you an immediate answer on this. I would like Mr. Douglas to speak on the matter.

Mr. JOHN R. DOUGLAS (*Audit Director, B Branch, Office of the Auditor General*): Mr. Chairman, every year we do a spot check on adjudication in the various local offices that we examine to see that it is in line with the provisions of the act and the regulations; but we do not approach recipients to see whether they have given correct information, or whether they have made fraudulent statements. We leave this to the investigators of the Unemployment Insurance Commission.

Mr. WINCH: About how many spot checks would you make in a year?

Mr. DOUGLAS: Of the local offices?

Mr. WINCH: Yes.

Mr. DOUGLAS: I do not have the information before me, but if I recollect correctly, we covered some 65 or 66 offices in the last fiscal year. We have been able to step up our coverage considerably in the last two or three years.

Mr. WINCH: Your inspection of the Unemployment Insurance Commission is based wholly on the legal aspects and perhaps not on the personal or welfare reason they may have done something.

Mr. DOUGLAS: Yes. We cover the system of internal control, payments, and so on, as well as the legal aspects.

Mr. HENDERSON: I might add that at the conclusion of each spot check a report is addressed to the chairman drawing his attention to all of the points noted in the course of our work, and in practically all cases we ask questions why this was done, why that was done, and he replies to each one.

Mr. WINCH: Do I understand that although you make spot checks, you, Mr. Auditor General, are responsible for the auditing of the books of the Unemployment Insurance Commission?

Mr. HENDERSON: That is right.

Mr. WINCH: Is it your responsibility in any way whatsoever when you note a fluctuation or deficit in accounts to make any recommendation to the government, or is your responsibility just in respect of the actual expenditure?

Mr. HENDERSON: There are two lengthy comments in both my 1962 and my 1963 report in respect of the Unemployment Insurance Commission; one which

is a lengthy two page comment dealing with its administration while the other has to do with the fund itself. I would suggest that you might care to peruse these and ask me your questions after that.

Mr. WINCH: What I am driving at is, is there any responsibility on you as Auditor General, if you find on your auditing a financial difficulty, to draw this to the attention of the responsible government official or the treasury board?

Mr. HENDERSON: We take this responsibility, yes, and I do that.

Mr. WINCH: If as a result of your audit you find a financial difficulty, do you have a responsibility to pass on any information or make a recommendation either to the minister or to the treasury board?

Mr. HENDERSON: That depends on the nature of the financial difficulty we find. If it is merely the fact that the fund has run into a deficit position, the government, namely the treasury board, is as fully aware of that as I am. I also bring it to the attention of the House of Commons by giving a detailed statement in my report. In fact each year, over the years, my reports have included statements showing what has happened to this fund.

Mr. WINCH: You have the authority to do that?

Mr. HENDERSON: Yes, sir.

Mr. WINCH: And you do it?

Mr. HENDERSON: Yes, sir. On the other hand, if it were a financial difficulty, say, stemming from maladministration, or something of that kind, then that immediately would be the subject of a special report from me—after having discussed it with the chairman of the commission—to the Minister of Finance and the Treasury Board asking for their reasons.

Mr. WINCH: I have one more question which I think will clear the air a great deal. Have you found it necessary in any way whatsoever to report to the treasury board or the minister that you found any maladministration of the Unemployment Insurance Act?

Mr. DOUGLAS: I would say no, sir.

Mr. HENDERSON: I think not.

Mr. WINCH: Thank you. I think that will clear the air a lot on this issue.

Mr. MUIR (*Lisgar*): Is the same procedure used in respect of the administration of the Prairie Farm Assistance Act and the unemployment insurance fund? It seems to me there is a parallel there and that what we are concerned about is the fact that the fund in each case has been abused, or that there is a possibility of this. How can we check through the audit whether or not either one of these funds has been abused?

Mr. HENDERSON: As the auditor for both funds it is my responsibility to bring any such cases to attention, and I have not hesitated to do so where I have found them. We have to bear in mind that my examination of necessity is a test examination. As Mr. Douglas just explained in the case of the unemployment insurance fund, he has been able to cover only 65 of the offices. How many offices are there?

Mr. DOUGLAS: Roughly about 200 odd local offices.

Mr. HENDERSON: Across Canada?

Mr. DOUGLAS: Yes.

Mr. MUIR (*Lisgar*): I do not think you will find maladministration. What you are going to find is that the affidavits, and so on, are not correct. I think this is well known throughout Canada, particularly in respect of the unemployment insurance fund.

Mr. HENDERSON: The unemployment insurance fund has its own inspectors who deal with the public, and of course deal with any question with regard to the validity of the statements made to them. In the course of our work we see those statements. We have questions about those statements. We do not go to the public recipients direct, but we discuss them with the officials of the fund, and we ask many searching questions. In point of fact, as I explained earlier, these questions are contained in our periodical reports on our examinations of the different phases. We are punctilious in reporting on each phase of our work, and in asking questions. In many cases this leads up to the officials improving their approaches, taking greater care, and so on.

Mr. MUIR (*Lisgar*): There is not too much you can do about collusion between the employee and the employer if they want to rifle the fund.

Mr. HENDERSON: We are only watchdogs; we are not detectives. If we see a case where collusion appears to have taken place, and the officials confirm that is their view or suspicion, then it becomes a matter for investigation possibly by the police.

Mr. DOUGLAS: I might add that if we do in the course of examining the files note any incomplete statements from employers with regard to the reason for discharge, for example, that would have a bearing on drawing benefits, then we will investigate, and we have done this on a number of instances.

Mr. WINCH: Only on the legal aspect?

Mr. DOUGLAS: In this instance it would go beyond the legal aspect, where for example, we have found inconsistencies in information by examining the files, or where we found that the employer had not given a satisfactory reason, or had been vague in his reason for the discharge. We would follow this up, and in some instances find that benefits have been improperly paid.

Mr. HENDERSON: I might direct your attention, Mr. Muir, to paragraph 72 in my 1962 report on the unemployment insurance administration at page 26. If you would look over on page 27, you will see in the paragraph before the last a full description of what we do. This perhaps is more in answer to Mr. Winch. In paragraph 200 on page 137, there is given the full picture of the out-turn of the fund and its general operation leading up to its financial statement which I certify at the close of each year.

Mr. WAHN: Mr. Chairman, does the Auditor General feel that the tests he is carrying out are adequate in view of the amount of criticism there has been in recent years of people, both employees and employers, abusing the fund; or does he feel that additional authority is required to enable him to carry out a more searching inquiry?

Mr. HENDERSON: I would like to see us carry out more searching inquiries, but I consider that the manner in which Mr. Douglas is handling this particular work, in the light of our staff limitations, is the best that can be done under the circumstances.

Mr. WINCH: There is the difficulty that the defence committee is meeting at 11 o'clock and, under a previous arrangement, certain questions which I want to discuss are coming up. I hope I will not be breaking the quorum if I leave.

The CHAIRMAN: We are doing all right so far. I hope at the next meeting you will be able to attend the full meeting of both committees.

Mr. McLEAN (*Charlotte*): The trouble with the unemployment insurance fund is that it is mixed up with social security. Should not the unemployment insurance fund be unemployment insurance, and the social security be divorced from that; would this not be much easier?

Mr. HENDERSON: That is taking us into the realm of policy, and I do not know to what extent the members might wish me to discuss that. Have you any views on that, Mr. Chairman?

The CHAIRMAN: I suppose, the policy having been determined, it is Mr. Henderson's duty then to audit and check based on the policy which has been established by the government and parliament. As an individual he may have his own private views, but I think it would be difficult for him in his capacity as Auditor General to express views with regard to government policy when he is reporting to parliament. I am not stopping him from doing so, but I would imagine this is the case.

Mr. TARDIF: I do not think it has even been publicly admitted that it is being used for social security measures. I think everyone knows it has been so used on many occasions but it is not publicly admitted.

Mr. McLEAN (*Charlotte*): What is the point in our criticizing? I think criticism from us at this stage is pointless.

Mr. HENDERSON: This committee dealt with this subject at great length in 1961, at which time Mr. Murchison gave evidence. The committee brought down strong recommendations which, I think it is fair to say, may have had something to do with the employment of the Gill commission to examine these abuses. Statements were made and facts were produced to show that the practice was actuarially unsound, that they were going beyond the apparent requirements of straight unemployment insurance. It was following that particular report of the committee that, I believe, the Gill commission was set up. That is correct, is it not, Mr. Douglas?

Mr. J. R. DOUGLAS (*Supervisor, Auditor General's Office*): That is correct, sir, yes.

Mr. SOUTHAM: I think the discussion we are getting into this morning is expressive of the concern we, as members of parliament, feel in regard to the administration of the fund and particularly in regard to the policy. Of course, we indicated this concern when we set up the Gill commission to make a study of the matter. We will be participating in legislation from the House of Commons that will tighten up this act so it can be policed more efficiently.

I can appreciate Mr. Henderson's point of view; he cannot be expected to answer questions here this morning indicating what policy we should follow. His chief function as I see it, and I think all members will agree, is to see there is no maladministration so far as the practices themselves are concerned.

The prairie farmers assistance fund is another example of malpractice which is due to the weakness of individuals in cases where they have had opportunities to make false affidavits and so on and in cases in which they have been able to stretch the procedure to take advantage of it. I think this is the point at which, when the debate comes up in the house for amendments to the act, we can make recommendations that will tighten the strings a little so we do not find these discrepancies creeping into the administration itself but casting no reflection upon the people who are administering the fund.

The CHAIRMAN: It is quite competent for the members of the committee at the appropriate time to deal with this, and that will be when we come to the Auditor General's report and his detailed statement. If the committee then feel they want to ask any of the officials of the Unemployment Insurance Commission to appear before them they may do so. It has been done before with useful results, as Mr. Henderson said. It will then be a matter for your own decision at that time. I am sure those officials will be only too glad to appear if you so desire.

Mr. HENDERSON: It is because of the importance of this whole program and the attention that has been directed to it that, beginning in 1962, I inserted a special section in my report dealing with the unemployment insurance administration, as distinct from the operation of the fund. I gave Mr. Tardif the numbers of the paragraphs. In my 1963 report that is up-dated and it appears in paragraph 63 on page 33. There I have sought to bring out the

size of the Unemployment Insurance Commission because I doubt that this is generally known or realized. For example, its administrative expenses alone amount to some \$48 million a year. Those expenses went up to \$48 million in 1962-63 from \$45 million in the previous year. Its full time staff ranges around 9,000 people with about 1,900 casual employees. This is big business.

Mr. TARDIF: That itself should eliminate unemployment!

Mr. HENDERSON: I took the opportunity of going over this in my reports in order to up-date the members on the proposals of the special committee of inquiry. Whatever individual views there may be on these, they did seek to come to grips with this whole business. I felt that this committee would be very interested in it, and my feeling is re-enforced by the way you have been expressing yourselves now. I think the committee can take great credit from its 1961 detailed examination of this program. That stemmed from a comment in my earlier report—the one the committee was examining at that time—which showed the extent to which these abuses were creeping in, the very point that Mr. Tardif raised a little earlier.

As the Chairman has said, however, we will come to these paragraphs in the 1963 report and it might be that at that time you will feel it desirable to call the chairman before the committee to question him on some of these points and to ask him where the fund is going.

The CHAIRMAN: And where the cost of administration is going.

Mr. HENDERSON: I think the cost of administration is certainly high. It is becoming a very high built-in cost.

Mr. TARDIF: You could practically use the term "staggering".

Mr. WAHN: I am not quite certain that I understand the difference between what this committee recommended and what is actually being done. The report that we have in front of us states that in its 1963 report the committee expressed the hope that action would be taken to implement its earlier recommendation that the preparation of annual financial statements for the Unemployment insurance fund should be made a statutory responsibility of the Unemployment Insurance Commission, and that the statements should be reported upon by the Auditor General. The Auditor General comments that no action has yet been taken for reasons given, but he says:

In the meantime and pending provision of such a statutory direction, the annual financial statements of the fund, approved by the chief commissioner, are being presented by him to me for examination and certification.

I find it very difficult to see what there is in addition to that that we can want to be done.

Mr. HENDERSON: May I just explain this very briefly. The unemployment insurance fund is a fund within the consolidated revenue fund, and in the past the detailed statements have always appeared in the public accounts prepared by the treasury showing the income and the outgo. Another schedule showed the securities. It used to have a large portfolio of securities, as you may recall.

One of the recommendations I had made back in 1960 was that there should be proper, complete financial statements showing the entire operations of the fund which, if prepared in the form of a balance sheet with the securities and everything else tied in, I would be prepared to certify in the same way as I certify the financial statements of the crown corporations. It was simply a matter of tidying up the manner in which they had been reported, in the past. This suggestion found favour, and in the case of the Unemployment Insurance Commission they proceeded to revamp their accounting practices to prepare formal orthodox statements. They presented them to me and I am now cer-

tifying them. These appear in the public accounts. We think this is quite a step forward.

However, it is necessary—and I am sure you will agree—in all these cases to have that made a requirement of the act in the same way as it is a requirement in many of our other statutes that financial statements will be certified by the auditor and placed before the shareholders or parliament, as the case may be.

This is awaiting discussion in the House of Commons of the whole Gill report. This is one of the recommendations of the Gill commission. The chairman saw the merits of this suggestion in the course of the committee hearings, and it is contained in that report.

We are getting on with the job here but we do not have the statutory authority to do it yet.

Mr. WAHN: Mr. Chairman, then I gather that although there is no statutory authority you are actually doing it.

Mr. HENDERSON: Yes, the officials of the Commission saw the merits of it and immediately went ahead in quite a constructive way. We are examining and certifying their financial statements each year now.

Mr. RYAN: Why would it be necessary to have legislation? Why could the procedure not be just adopted?

Mr. HENDERSON: That is a good question, Mr. Ryan, except that if the unemployment insurance act were to provide for the preparation of financial statements consisting of—and spelling out those things of which they should consist—revenue, expenditures and a balance sheet, and that these statements shall be certified by the Auditor General and laid before the house—

Mr. RYAN: I think you would feel better if it was made a requirement.

Mr. HENDERSON: I think it makes for a more orderly and orthodox procedure and is in line with what parliament has instructed the majority of its other agencies to do.

Mr. RYAN: When you say that no action has yet been taken, do you mean in respect of this feature only?

Mr. HENDERSON: Yes, that is right.

The CHAIRMAN: Are there any other questions?

Mr. FORBES: Mr. Chairman, it seems to me that what the committee is looking for is some sort of report upon the amount of payments that have been made to people who are not justified in receiving these payments.

The Auditor General has referred to the commission having inspectors on the job. However, this is a case where the inspector would have no report: I am referring to the number of prosecutions taking place of people collecting unwarranted amounts. He would have no report on that, would he? This is where the loss is incurred in connection with the unemployment insurance fund; it is not at the administrative level that we find the loss but rather with people collecting money who are not entitled to it. Is that not the case?

Mr. HENDERSON: Yes, and you might be interested if I were just to read an excerpt from page 34 of the 1963 report in which I say:

In appraising the validity of benefit awards, no attempt is made by the audit office to verify the accuracy or completeness of information regarding claimants, contained in the records of the commission and provided to it by claimants, employers or others, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the commission's own investigation enforcement staff.

Although operating at a slightly lower level of strength during 1962-63, this staff achieved a slight increase in the number of investigations completed over that of the preceding year.

Notwithstanding this increase, penalties imposed on claimants for false or misleading statements were fewer in number, totalling 20,367 compared with 22,650 in 1961-62, a drop of 10 per cent.

This is the type of comment which I am making in respect of the administration of the Unemployment Insurance Commission because I think it is important to see how its administration is proceeding.

Mr. FORBES: I think that is where the problem lies.

Mr. McLEAN (*Charlotte*): I do not think the problem is there. The company with which I am associated has quite a lot to do with the unemployed people. We find the unemployment act works well and that they do cut people off, and so on.

What is wrong with the act is that certain segments of our economy have been put in there, segments which should not be in there. The trouble is not with the little claims that come in and are turned down or passed; that is just administration of the business and it will not affect the deficit in the unemployment insurance fund. The aspect of it that will affect the deficit is the addition of segments of our economy which are not justifiably included in this act, you might say, on an actuarial basis.

Mr. HENDERSON: That is what I brought out in my 1962 report. We sought to show precisely where the abuses lay, and it was as a result of the committee's consideration that you called in the officers.

Mr. McLEAN (*Charlotte*): It seems to me that we should have figures showing what is paying and what is not paying.

Take the workmen's compensation, for example. In that case if there is a segment of the economy that is not paying its way, up goes the rate. It has to pay its way. The rates are all the same in this case and we have part of our economy that is not paying its way. When we started out it was apparently paying its way and we had a surplus in the fund, but we will never have a surplus in the fund as long as we include segments of the economy which do not pay their way. It seems to me we have to find out what it is and put the fund on a sound financial basis. We must ensure that the government gives grants to these other parts which do not pay, and then we will know where we are.

Mr. FORBES: Would Mr. McLean care to name some of the segments to which he refers who should not be benefited?

Mr. McLEAN (*Charlotte*): I do not say they should not be benefited. We have a situation in which this fund is not working on the basis on which it started out. Take fishing, for example; if we are going to include that industry special grants should be given from the government rather than trying to blame the unsound financial basis upon the unemployment insurance.

Mr. SOUTHAM: We saw the weaknesses in the act as presently set up, and this is why the Gill commission was requested to investigate and bring in the recommendations. I do not think we are serving any useful purpose by discussing all these aspects of this particular phase this morning because Mr. Henderson cannot be expected to make comments on policy; this is our duty.

The CHAIRMAN: If it is the wish of the committee we will have someone from the Unemployment Insurance Commission before us and then, in our capacity as members of the committee, we can direct questions to him. Having received information in that way we can, as members of the House of Commons, use the information we have obtained here to express our views as members of the House of Commons when questions of policy come up in the house.

Are there any more questions? I suggest the steering committee will take note of the committee's views with regard to calling someone from the Unemployment Insurance Commission before us at the appropriate time.

If there are no more questions on this topic we may proceed to the next item, which is concerned with departmental operating activities.

Mr. HENDERSON: This is a subject we discussed last December. You approved of my objective and asked me to continue to keep the development of the objective under close surveillance and to report to the committee. This I am doing, and I propose dealing with it in my next report to the House of Commons.

The CHAIRMAN: The next item in the report is that of the board of grain commissioners. We now go back to western Canada.

Mr. HENDERSON: As you will recall, your consideration of this stems from the facts regarding the operation of the board of grain commissioners which indicated that its expenditures were exceeding its revenues by more than \$1 million. You asked me to keep this matter under review and to report to you in due course.

I am now able to tell you that I have been advised by the deputy minister of agriculture that it is intended to move on this matter. In point of fact, as recently of April 20 last the department issued a circular stating that they proposed to amend their regulations to increase inspection and weighing fees by 50 per cent in order to enable the board to meet expenditures involved in providing these services, but not to do so until August 1, 1965.

I was further informed that the board had in mind the revision of these fees in the present crop year, but the deputy minister said that owing to the very narrow margin on which the grain trade was operating on contracts under present international agreements it was not considered equitable to announce changes after those contracts had been entered into. Therefore we have a case here where your recommendation is in fact going to be implemented, and I believe we have here a copy of the circular which went out and which states that the rates will go up because of what I have been saying in my reports.

Mr. FORBES: Mr. Chairman, you recall in 1961 we had a short crop year and the charges of the board of grain commissioners were on a bushel basis. We had a short crop that year, but let us compare this with the last year when they had a heavy crop in western Canada. I fully expect the board of grain commissioners will pay its own way and have a surplus this year.

Mr. HENDERSON: That could be so.

Mr. FORBES: It is difficult to estimate from time to time what should be charged. One does not know what kind of crop one will be handling.

The CHAIRMAN: Is there any more discussion? Are there any more questions on this point? If not may we turn to the matter of subsidies, which appears at the end of page 6?

Mr. HENDERSON: Mr. Chairman, I have to tell you I believe I was not strictly correct in my comment here. Mr. Long and I checked this with the office of the secretary of the treasury board only the other day, and we find that the listing in question was actually updated before the committee rose in December, and copies of this updating in fact, were made available to the members on December 5. I apologize for having treated this as an outstanding item. The extent to which the committee members may want to have it still further updated is something else again. The secretary of the treasury board most certainly carried out your requirement last December.

The CHAIRMAN: I do not know whether or not members will recall, but there was a 49 page statement distributed which was broken down in detail showing all the subsidies, grants and special payments made by the government starting in 1959 which aggregated a total of \$1,606,000,000, and by

1963-64 \$2,228,000,000. While we have no determination with regard to how these are made and the purpose of them, we are interested in having before us, at the request of the Auditor General, a fairly concrete and synopsised form, in one document, all the payments by the Government to other individuals, and so on, so that anyone interested could put his finger on these and see how these figures are growing. The treasury board did bring this up to date. The members may recall that at our last session we had some discussion with regard to whether or not this could be put in a form more acceptable. I do not think our discussion proceeded beyond that at that time.

Mr. MUIR (*Lisgar*): What is the cut-off date of that?

The CHAIRMAN: It is brought up to 1963-64 showing a total at that time of \$2,228,000,000 as an aggregate of all the grants.

Mr. SOUTHAM: I would like to commend the departmental officials for having prepared this. I think it is in a concise form and contains a good deal of the information we require and would like to discuss.

Mr. RYAN: This is dated December 2, 1963, and is prepared by the staff of the treasury board.

The CHAIRMAN: Yes. As I understand it it was not prepared under any statutory requirement, but the treasury board have it for information purposes. It was made available to us, and we have had an opportunity to review it. It is purely for purposes of information. It is for the committee to decide whether or not it wants to deal with it.

Mr. MUIR (*Lisgar*): Would it be possible to have this prepared on an annual basis?

The CHAIRMAN: Does the treasury board keep this up to date each year?

Mr. HENDERSON: I believe so. I believe they could meet your request, if you would like to have it on an annual basis.

Mr. MUIR (*Lisgar*): You can find it in the estimates, but it would be easier to have it in this form.

The CHAIRMAN: Is it the view of the committee that we should have this up to date each year and presented in due course to the committee?

Agreed.

Mr. HENDERSON: The next is the Canada Council. This reference had to do with the appearance of officers of the Canada Council at the last meeting, and the members will recall they postponed further consideration of the problem involved until the now current session. In the meantime, as my comment indicates there has been no change in its approach to the handling of the distribution of the accumulated profits and interest earned on the university capital grants fund. I would suggest, Mr. Chairman, that you might care to defer this item until the officers of the Canada Council appear before you in connection with our review of the 1962-63 accounts, because you have this as a specific reference to the committee.

The CHAIRMAN: Yes. I have been in touch with an official of the Canada Council, and they have asked for the opportunity to appear so that we might have a full discussion, not only of this item, but also of their 1962-63 financial report, and the statements in the reports of the Auditor General. Are there any other questions at this time on this point?

Mr. HENDERSON: On page 7, we now turn to the matters we covered in my 1962 report. The first item followed the discussion of the summary, that I have placed in my report to the house, of employees authorized for the public service, by departments, crown corporations and other instrumentalities. In accordance with your request, I am preparing a comparative list along the lines discussed for inclusion as an appendix in my report to the house for the year just ended.

Internal financial control is a subject on which I have commented over the past several years in my reports to the house, and again I am continuing my examination into this area, and will be reporting to the house further on the subject in my next report.

On the next item, government contributions not made to superannuation accounts, you will recall the committee felt steps should be taken promptly by the executive to remedy the situation I brought up and to urge the Minister of Finance to give it his early attention. I indicate here that the Minister of Finance dealt with this subject in his statement to the house on March 6. He mentioned several adjustments being made in the accounts for 1963-64 with regard to accumulated actuarial deficiencies in the various superannuation accounts.

Since submitting this follow-up report to you I have received a reply to my letter to the deputy minister of finance. In point of fact, he sent it to me on May 25, although it had been dated earlier. Therefore, at the moment I have not been able to complete my study of it sufficiently to make any further comment. However, as this matter will be coming up in your consideration of my 1962 and 1963 report, it might be that you would wish we hold it over until then.

The CHAIRMAN: There will be a number of items on which we will require the appearance of the deputy minister of finance.

Mr. HENDERSON: Yes, I would think so. At that time you may have some questions on this subject, because I deal with it quite early in my comments in the 1963 report.

The errors in the public service superannuation account concerning pension and contribution calculations is a subject that you studied last December. In accordance with your request, I shall continue to keep you informed with regard to the progress being made in remedying this situation. This was gone into last December when Mr. Bryce appeared before the committee. I think you would agree it probably is too soon to go into it again. However, I intend to do so later.

The CHAIRMAN: I think Mr. Bryce indicated he was aware of these difficulties, but that it would take some considerable time for them to be able to catch up with them all.

Mr. HENDERSON: Yes, sir.

The CHAIRMAN: The next item is interest charges on loans to the National Capital Commission.

Mr. HENDERSON: We had a lengthy discussion on this during Mr. Bryce's appearance before the committee, and it will be recalled that the committee recommended steps be taken to review the present practice of the National Capital Commission with a view to placing its financing on a more realistic basis. However, I do not have any further advice in respect of this, and I have not been informed what steps have been taken to implement it.

The CHAIRMAN: Have you any indication from the deputy minister that he feels the suggestion made by you to the committee should be carried out?

Mr. HENDERSON: I think he still retains definite views on the subject, Mr. Chairman. It might be useful if, on the occasion of his next appearance before the Committee, this subject could be discussed further.

The indirect compensation to chartered banks has to do with the point made in my 1962 report concerning the interest paid to the government by the chartered banks, because, as you will recall, balances up to a level of \$100 million are interest free. I suggested that this represented indirect remuneration which would be contrary to the Bank Act, and you agreed with me in this view, and added that you felt consideration should be given to the most equitable manner in which this could be done with statutory sanction being given by

means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

The only comment I have on this is the fact that this decennial revision, apparently, is going to commence in the late fall of 1964, or in 1965 based on the minister's recent statement in the house. I shall follow this up.

The CHAIRMAN: On this next item, was anything done in respect of our recommendation?

Mr. HENDERSON: I have not received any advice on this point from the deputy minister of labour, although my officers were aware that the living allowances continued to be paid. At the time of my original comment in my 1962 report, the living allowances were being paid at the rate of \$60 a day. I felt that this included an element of remuneration which would be contrary to subsection 1 of section 39 of the Judges Act. Following the discussion in this committee, you agreed with my view and made your recommendation that if additional remuneration is to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of parliament for payment of the additional remuneration should be sought. I have not received any advice from the deputy minister of labour, but we have noted that under an order in council dated May 7, 1964, the rate of \$60 a day has been increased to \$100 a day. That is the only progress I have to report, Mr. Chairman.

The CHAIRMAN: So, not only did the department ignore what we recommended, but rather they increased the amount by \$40. Therefore, if they were wrong at the amount of \$60, they are \$40 further wrong today.

Mr. ROCK: And on top of this, they also receive travelling expenses.

Mr. HENDERSON: Yes, sir.

Mr. TARDIF: And on top of that they receive their regular salary?

Mr. HENDERSON: Yes.

Mr. TARDIF: You should not be an auditor; you should be a judge.

Mr. SOUTHAM: I think we should earmark this item for particular consideration when we are discussing the 1963 report.

The CHAIRMAN: I am sure the committee would want to have some representations, not only in view of the fact that our recommendation was ignored, but that on the contrary action has been taken to increase the amount. I think we should make sure we have before us an appropriate official, and I think this would involve both the Department of Justice and the Department of Labour.

Mr. DOUGLAS: Officially it comes under the Department of Labour.

Mr. HENDERSON: The Department of Justice naturally is very interested in it, and the deputy minister has spoken to me about it, more in the context of one of my comments in respect of isolation allowances paid to judges in the 1962-63 fiscal year. He indicated to me he would be prepared to appear before the committee to discuss that item when it is called. You will also recall that at the last meeting the Minister of Justice himself addressed a letter to the committee, making the case for the \$60 a day being necessary for the judges for a living allowance to cover their hotel room and meals. It is quite possible that Mr. Driedger would wish to make some statement to you on the subject. However, as Mr. Douglas says, this comes under the Department of Labour officially, and it is the Department of Labour in whose name the order in council of May 7th to which I have referred was passed.

Mr. FORBES: Is this allowance exempt from income tax?

Mr. HENDERSON: I believe it is reported on T-4 slips.

Mr. DOUGLAS: Yes.

Mr. HENDERSON: Which means that a judge presumably would claim for his actual expenses and presumably pay income tax on the net.

Mr. FORBES: What brings this to my mind is a case which came up before the income tax department in Winnipeg a couple of weeks ago regarding a man from Grandview, Manitoba, who went to another town to get a job and the income tax department would not allow him to deduct the cost of his board while he was away from home getting employment. This may be compared with the \$100 a day, because these fellows need to live at a hotel.

Mr. RYAN: Is there any surrender, by a federally appointed judge acting as arbitrator or conciliator, of his regular stipend?

Mr. HENDERSON: I think not.

Mr. ROCK: In this paragraph here it says "out of pocket expenses for transportation, parlor and pullman car accommodation and taxicabs". This does not include hotel bills in the city; it does not include meals, and all that. It is just during travelling that the expenses are paid on top of the \$60, which now is increased to \$100 a day.

Mr. HENDERSON: The actual wording is that a per diem living allowance of \$100 and actual out of pocket transportation expenses, including parlor and pullman car accommodation and taxicabs is to be received by the federal judge in addition to his judicial salary while engaged as a member and chairman of the said board for which the usual detailed accounts are to be submitted.

The CHAIRMAN: Mr. McLean.

Mr. McLEAN (*Charlotte*): Would this \$100 apply to arbitrators other than judges?

Mr. HENDERSON: As Mr. Long was just saying to me, Mr. McLean, the point here is that the judges act prohibits them from receiving additional remuneration. So far as it might be applicable to others who might be appointed for this work, they would be free to receive it.

Mr. McLEAN (*Charlotte*): I was wondering if additional remuneration was paid to other arbitrators. If it was, then we would have to pay the judges the same.

Mr. HENDERSON: If they want to have them serve they probably have to make it attractive, but we are up against the wording of the Judges Act which, in my opinion, is specific on this point.

The CHAIRMAN: What you have in mind is that \$100 includes elements of remuneration? You have in mind that the \$100 would include more than just the out of pocket expenses?

Mr. HENDERSON: The \$100 in the context of the act as we read it is a living allowance to cover the cost of their hotel room and meals. The other expenses are paid on the out of pocket basis. Therefore it becomes a matter of opinion whether \$100 per day covers those expenses. Suites and that type of thing are expensive. I think this was the point made by Mr. Chevrier in his letter to the Chairman last December.

Mr. MUIR (*Lisgar*): This applies to legal counsel on commissions as well. Over and above their remuneration they receive their \$100 just the same as the judges.

Mr. HENDERSON: The \$100 rate is paid in other cases, as you know, to people serving on boards and commissions. The directors of some of the crown corporations, I think, receive a per diem rate at this level, and they are taxable.

Mr. FORBES: Is this not a maximum of \$100? If it only costs \$25 he would not be putting in a bill for \$100.

Mr. HENDERSON: He would receive \$100. If it cost him \$25—and he presumably files his hotel accounts with the income tax department—then he would pay income tax on the remaining \$75.

Mr. ROCK: Your concern is not with the amount? You are concerned with the legal implication?

Mr. HENDERSON: Yes. As I have stated, it is because of the fact that additional remuneration would be contrary to subsection 1 of section 39 of the Judges Act, which prohibits it.

Mr. ROCK: You have no facts available to show that the difference between what the hotel costs and the balance of the fee has been recorded in their income tax as additional income? You have no facts to prove they have included this in their income tax reports as additional income?

Mr. HENDERSON: No, that would be a matter for each judge in his own personal relationship with the income tax department. We see the T-4's which are issued by the Department of Labour and sent to the income tax department showing the amount paid.

Mr. ROCK: I believe if this is considered as a living allowance, as has been stated, then they are not required to include it in their income tax report at all, but only the salary itself.

Mr. HENDERSON: All I can say, Mr. Rock, is that we know that the T-4 slips as required by the Income Tax Act are issued by the Department of Labour in respect of the amounts paid to each judge. The extent to which each individual reports them to the department is something I have not checked.

Mr. TARDIF: If a T-4 slip is issued, they do not have much choice but to report it, do they?

Mr. HENDERSON: That is generally the case. Living allowances generally are taxable, so that is why the department issues the slips.

Mr. ROCK: I do not think any person working for any company or any school commission or municipality, a person who is for example an alderman or mayor or who holds any public post or is a fonctionnaire for any government department, would ever report an additional living allowance obtained from extra work and travel, in their income tax returns, because this is strictly something additional for expenses. I believe in this case it is an additional expense incurred by the person who receives it, and I believe it is considered as such. I do not think it has anything to do with being included in the income tax report. I think this is where our complication arises.

Mr. HENDERSON: If the cost of the hotel and meals equals \$100, then there is no remuneration, and thus no problem.

Mr. TARDIF: If it costs \$100 a day to eat he has a very good appetite!

Mr. ROCK: If they received \$100 and it cost \$60 are they obliged to hand in a report of the hotel bill? If they are not obliged to hand in a report, can we question this fact of their expenses other than the travelling expenses?

Mr. HENDERSON: Perhaps Mr. Long can answer that question.

Mr. G. R. LONG (*Supervisor, Auditor General's Office*): I think if you checked the Income Tax Act you would find that living allowances are taxable if they are non-accountable allowances. If a person were only reimbursed for his actual expenses, there would be no question of tax. However, when he receives a living allowance he must include it in his income, but he can offset against that the actual expenditures which he has incurred. I think the department would be required to assess him on it unless he showed the actual cost to be equal to the allowance.

The CHAIRMAN: To refresh your memory, perhaps I might say that we filed the letter written to me by Mr. Chevrier, then Minister of Justice, dated July 9, 1963, and it appears at page 219 of the proceedings and evidence of the standing committee last year.

Mr. ROCK: This is a beautiful looking book. Can members of the committee obtain it?

The CHAIRMAN: I do not know. This came from the library.

Mr. HENDERSON: It is the minutes of the last committee.

Mr. ROCK: We have it in cut up form only.

The CHAIRMAN: I am advised it is not on the free distribution list.

On page 219 at paragraph 4 you will see that Mr. Chevrier says this:

With regard to paragraph 71—

—which is paragraph 71 in Mr. Henderson's report.

—commenting on living allowances to federally appointed judges, I understand that allowances are taxable under the Income Tax Act.

This, I presume, is on the advice of members of his department.

Mr. McLEAN (*Charlotte*): Then, Mr. Chairman, what about members of parliament?

Mr. ROCK: Our concern is to make this additional income legal? We have to have parliament make it legal?

The CHAIRMAN: That is what we recommended last year, Mr. Rock.

Mr. ROCK: And we will come back to this again during our future meetings?

The CHAIRMAN: We hope to have someone available from the department, and we can ask him what has been done.

Mr. TARDIF: I think we should be careful that the wording shall be correct this year for fear they might increase it further!

The CHAIRMAN: If there is nothing more on that may we pass to the next item? When we have completed that we will have completed Mr. Henderson's follow-up report and will be free to embark upon the balance of his financial statement at the next meeting.

The last item appears at page 9 and concerns unemployment assistance.

Mr. HENDERSON: One of the committee's witnesses at the last meeting, you will recall, was the deputy minister of welfare who referred at some length to the problems encountered in administering the unemployment assistance act across Canada.

My comment at the top of page 10 was merely to update this situation following a short talk that Mr. Douglas and I had with the department. Is there anything you would wish to add to this, Mr. Douglas?

Mr. DOUGLAS: I do not think there is too much to add except to say that meetings have been held and that the government is in the process of considering the problem, together with the provincial officials.

Mr. HENDERSON: Dr. Willard was very appreciative of his opportunity to outline something of his problems to the committee, and you were good enough to make some observations in your report. This explains why I gave recognition to it here in the follow up report. I do not think I have anything more to add to that, Mr. Chairman.

The CHAIRMAN: We can assume, probably, that what was said was reflected in the discussions in the federal-provincial conference?

Mr. HENDERSON: Yes.

The CHAIRMAN: Are there any further discussions at this point?

Gentlemen, this concludes our discussion of the Auditor General's follow-up report. We thank him very much for his appearance with his officials, and we look forward to renewing our acquaintance with him when we start to discuss the 1962 report which we did not conclude in our last meetings. If you recall, gentlemen, we went some distance into that 1962 Auditor General's report but left some of it to be completed. It was for that reason that the government, in its order of reference to this committee, included the 1962 report as well as the 1963 report. I hope when we send round the committee notes I may be able to include the particular point at which the 1962 report will be taken up next Tuesday.

Mr. HENDERSON: We will be comencing at paragraph 75 on page 29 of my 1962 report which deals with the Department of National Defence. There are a number of comments that follow having to do with that department.

The CHAIRMAN: Thank you, gentlemen. If there is no further business I would ask for a motion to adjourn.

Mr. TARDIF: I move that we adjourn, Mr. Chairman.

The CHAIRMAN: It appears that that motion is unanimously adopted.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 3

Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

THURSDAY, JUNE 4, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,	Grafftey,	Ricard,
Beaulé,	Gray,	Rinfret,
Berger,	Hales,	Rochon,
Cameron (<i>High Park</i>),	Harkness,	Rock,
Cameron (<i>Nanaimo-</i> <i>Cowichan-The Islands</i>),	Lessard (<i>Saint-Henri</i>),	Rondeau,
Cardiff,	Loiselle,	Ryan,
Chaplin,	Mandziuk,	Scott,
Côté (<i>Chicoutimi</i>),	McLean (<i>Charlotte</i>),	Skoreyko,
Crouse,	McMillan,	Smith,
Drouin,	McNulty,	Southam,
Dubé,	Muir (<i>Lisgar</i>),	Stefanson,
Fane,	O'Keefe,	Tucker,
Forbes,	Pigeon,	Valade,
*Francis,	Pilon,	Wahn,
Frenette,	Regan,	Whelan,
Gendron	Richard,	Winch—50.

M. Slack,
Clerk of the Committee.

* Replaced Mr. Eudes on June 3.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
WEDNESDAY, June 3, 1964.

Ordered,—That the Standing Committee on Public Accounts be granted leave to sit while the House is sitting and that it be empowered to appoint sub-committees, to fix the quorum of any such sub-committee and to refer to such sub-committees any of the matters referred to the Committee; that any such sub-committee so appointed have power to send for persons, papers and records and to examine witnesses; to sit while the House is sitting, and to report from time to time to the Committee.

WEDNESDAY, June 3, 1964.

Ordered,—That the name of Mr. Francis be substituted for that of Mr. Eudes on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, June 4, 1964.

(4)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Côté (*Chicoutimi*), Fane, Forbes, Hales, Harkness, Mandziuk, McLean (*Charlotte*), Pilon, Regan, Ryan, Southam, Tardif, Winch.—(14).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Long, Millar, Laframboise, Laroche, Crowley, Chapman, Douglas, Sayers, Smith, Harris, of the Auditor General's Office.

The Auditor General made a statement in reply to a question by Mr. Winch on June 2nd relating to the Prairie Farm Emergency Fund and was questioned thereon.

Mr. Henderson also replied to a question by Mr. Winch on June 2nd relating to surplus material and was questioned thereon, assisted by Mr. Millar. Mr. Henderson undertook to supply a more detailed report at a later sitting, and the Committee agreed to hear witnesses on this subject.

The Committee then proceeded to the consideration of the Report of the Auditor General for the fiscal year ended March 31, 1962.

On paragraph 75, *Education costs incurred by the Department of National Defence*, Mr. Henderson made a brief statement.

On paragraph 76, *Loss of Aircraft due to negligence*, the Chairman referred to correspondence exchanged last year on this subject.

On paragraph 77, Mr. Henderson commented briefly and was questioned thereon, assisted by Mr. Millar.

On paragraph 78, *Renovation of remote transmitter Station, Halifax*, after questioning, Mr. Henderson suggested that witnesses be heard on this subject.

The questioning of Mr. Henderson still continuing, at 10.55 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, June 9, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, June 4, 1964

The CHAIRMAN: Gentlemen I see a quorum. The meeting will come to order.

While it was announced at the end of our last meeting that we would be commencing with item 75 of the auditor's report, Mr. Henderson has the answers to two questions asked him and I going to ask him to give those answers now.

Mr. A. M. Henderson (Auditor General of Canada): Mr. Chairman, at the last meeting Mr. Winch put two questions to me but owing to the absence of my directors in charge of the particular phases of the work I begged your indulgence to speak to them today.

The first of these questions, you will recall, had to do with my responsibility, authority and the scope of my work with regard to the audit of payments made from the prairie farm emergency fund. You may recall I explained that Mr. Stokes, my director in charge, was absent through illness and asked that I be allowed to speak to the matter at today's meeting.

A short answer to Mr. Winch's question would be for me to repeat that I regard it as part of my audit responsibilities to satisfy myself that all expenditures made by the prairie farm emergency fund are in accordance with the provisions of the Prairie Farm Assistance Act. However, as we discussed last Tuesday, we in the audit office are not in a position to investigate by outside inquiry statements made or information given by public applicants for assistance. This is the responsibility of the administration, whose procedures require that such investigation be made by inspectors appointed under the act. On the other hand, if information furnished by the applicants and seen in the course of our work appears to us to be out of line or for example, to suggest collusion between the inspector and applicant, we institute immediate inquiries of the responsible officials and follow the points through.

I now come to the audit coverage that we have been able to give to the fund's expenditures over the past few years. I wish to be quite frank in saying to the committee that this has, in my opinion, fallen considerably short of what should have been undertaken. I am going to describe this to you in some detail because the circumstances illustrate only too clearly what I have stated in my last two reports to the House of Commons, namely, that owing to staff shortages over the past several years in my office there have been too many instances where we have been unable to carry out our test examinations with sufficient frequency or in sufficient depth to achieve even the minimum standard required by modern accepted auditing practice.

Verification of expenditures of this fund must be made in the offices of the Prairie Farm Assistance Act administration in Regina and also in Edmonton. Up until May, 1960, I had only one officer stationed at Winnipeg to handle all of my federal government responsibilities in the two provinces of Manitoba and Saskatchewan, while those in Alberta were handled by my Vancouver representative working out of that point who had a staff of two assistants at that time.

My Winnipeg representative had carried out a test examination of the P.F.A.A. Regina office in 1957. Having finally obtained an assistant for him in the spring of 1960, we made a further test check of Regina office expenditures

in that year. Neither of these audits revealed evidence of any improper payments, although it is possible that if any existed they might have been brought to light had we been able to carry out our work in greater depth.

Early in 1962 we were able to add another assistant to the Winnipeg staff. It was then planned to devote 12 man-weeks to the audit of payments under the P.F.A.A. and P.F.R.A. in the 1963-64 fiscal year. However, this schedule could not be met and the time available for these two jobs was first of all reduced to five man-weeks and then, because of the relatively much greater expenditure under the P.F.R.A. including expenditures on the south Saskatchewan river dam, all of this time was devoted to this work, thus postponing any test checks of the expenditures under the Prairie Farm Assistance Act for that fiscal year. This is what happens when your staff is spread too thinly.

No test audits have been made of the prairie farm assistance payments in the province of Alberta because my Vancouver representative was and still is faced with insufficient manpower to do all the work that should have been done in British Columbia and Alberta.

Last March my Winnipeg representative was unfortunately hospitalized. In sending a senior man from Ottawa to take over his duties in his absence, Mr. Stokes and I issued special instructions to him, as one of his first duties, to make a detailed review in the Regina P.F.A.A. procedure relating to the processing of claims for assistance under the act and the existence of internal control measures so that with a full understanding of the situation plans could be made for proper auditing on an effective cyclical basis.

Pursuant to these instructions he sent a detailed report to us at head office early in April covering the P.F.A.A. administration in Regina, covering operations of its board of review; the procedure for processing claim applications; the pre-auditing carried out by treasury representatives there; the processing of eligible claims; the final audit and payment by the treasury; consideration of the ways in which fraud could be perpetrated; the extent to which fraud could be detected in the audit, together with observations of weaknesses we had found to exist in the system of internal control. As a result of our consideration of this report, my Winnipeg representative is hoping to assign sufficient time in his 1964-65 audit schedule to carry out a comprehensive audit of the Regina office.

Similar work we hope can be undertaken for the province of Alberta in Edmonton where we have recently established an officer. In fact we plan to provide this officer with a trained assistant shortly.

In the same way I consider that the size of my responsibilities in the province of Saskatchewan is sufficient to justify the permanent establishment in Regina of at least one man, depending on the approval of my staff plans for 1965-66 by treasury board. We thus propose to undertake an annual examination in future of payments made under the Prairie Farm Assistance Act and to carry it out in sufficient depth to ensure that irregular payments can be detected unless they represent collusion of the type I have mentioned.

This completes my remarks on Mr. Winch's first question, Mr. Chairman, and I shall be glad to deal with any questions which members may have on my statement.

The CHAIRMAN: Are there any questions?

Mr. HALES: I believe you have two representatives now in Winnipeg, have you not?

Mr. HENDERSON: We have three now.

Mr. HALES: Do they have other audit work to do out of that office or do they just do P.F.A. work?

Mr. HENDERSON: They have auditing responsibilities on instructions from head office here in respect of the operation of all federal government department operations in the two provinces of Manitoba and Saskatchewan.

Mr. HALES: And how much money would be handled in those two provinces by P.F.A., that is in Manitoba and Saskatchewan?

Mr. HENDERSON: Mr. Long has some figures here.

Mr. HALES: Just give me a rough figure.

Mr. G. R. Long (Acting Assistant Auditor General): In 1962-63 the estimated expenditures were just over \$11 million. I believe this was slightly below what might normally be the expenditure. It was a good crop year.

Mr. HALES: So this government finds itself spending \$11 million and we do not seem to be able to afford one full time auditor to look after that much money. We do not have a full time man to do this. I cannot conceive of any business where the turnover of \$11 million would not warrant a full time auditor for the year round.

Mr. HENDERSON: As you recall, recruitment was the problem and still is.

Mr. HALES: I think it is just a matter of saying, "We have to have a man", and go out and get him. I think it is ridiculous that \$11 million is involved and we are not auditing it.

Mr. FORBES: It seems to me that if there were any irregularity in connection with payments under the act, the auditor would not find it. This would take place at the farm level where the inspector would make someone eligible for a payment who would otherwise not be eligible. The officials of the P.F.A. office are very competent men.

Mr. HENDERSON: That is correct.

Mr. FORBES: I doubt whether you would find anything wrong with their statements or accounts. The thing that Mr. Winch had in mind, and a great many other people have in mind, is whether every farmer who is paid P.F.A. is legally entitled to that payment. This is where any irregularity might take place, and an auditor would not find it because you do not go out into the field to reinspect what the inspector has found.

Mr. HENDERSON: We may see something in the reports which would cause us to query them and thus institute enquiries which would disclose a situation like that, but the prime responsibility for it must always rest with the administration.

I think I should add, Mr. Forbes, that I do not believe that the allegations that have been made, have been proved yet; I think they are being studied by a commissioner. Is that not correct, Mr. Harris?

Mr. A. Harris (Auditor General's Office): It is.

Mr. FORBES: There is a latitude under the P.F.A.A. I received P.F.A. and I was not entitled to it but I just happened to be in that block. Of course, nobody would turn down a government grant. Another fellow, living across the line, did not get it and he was entitled to it.

Mr. TARDIF: You should have given him your payment.

The CHAIRMAN: We extend parliamentary immunity to Mr. Forbes.

Mr. McLEAN (Charlotte): Mr. Chairman, would not the inspectors be more or less classed as auditors in a way, and do they not check what is being paid out as well as its legality, and so forth?

Mr. HENDERSON: The administration has extensive procedures which it applies to these applications, beginning with, I think, the cultivation acreage report which is looked over by the inspector who checks the farmer, and presumably the inspector has some farming education and is able to express an

opinion on it. The papers then are examined by the treasury office representatives in Regina, and so forth, right up to the time of payment. However, I doubt whether you could classify the inspectors as auditors in the orthodox sense.

Mr. McLEAN (*Charlotte*): I know that in business you have an internal audit and an outside audit.

Mr. HENDERSON: That is the treasury check. Perhaps Mr. Long could say something about this from our reports.

Mr. LONG: The comptroller of the treasury office in Regina does check these payments before they are made as an internal audit or a pre-audit measure, but their difficulty, of course—if there happens to have been any collusion in the field and an inspector did not do his job right—is to find it. The only way of doing this is if they slipped up somewhere and there was some glaring inaccuracy in the information on the return which would alert you to it.

Mr. McLEAN (*Charlotte*): But you might say that yours is not the only audit.

Mr. LONG: There is a pre-audit. The comptroller makes these payments and he does check them before they are made.

Mr. McLEAN (*Charlotte*): And you check the comptroller?

Mr. LONG: That is right.

Mr. TARDIF: It is evident that the major problem there is that you should get sufficient staff. Even if you do not get permission to have your staff, then pressure should be brought to bear to get the civil service to find the necessary staff. Eighteen months is more than sufficient time to complete the filling of all the vacancies in your department.

I do not disagree with what has been said about a \$11 million corporation, and the fact that there should be a permanent auditor. I would say it would even be an improvement if there were an auditor for two months, and then another auditor for another period. I do not say that the inspectors are dishonest, but it is possible for them to make mistakes. It should not be the farmers' opinions which decide what payment is to be made. If the inspector is not as efficient as he might be, there are times when an auditor will find conditions which exist; not necessarily conditions of dishonesty, but perhaps a lack of efficiency or an improper method of assessment in respect of the money which is to be spent.

I believe this committee should insist that this staff should be filled to the capacity necessary. I do not think there is any excuse for this not having been done in the past 18 months. Eighteen months is a sufficient period of time for the Civil Service Commission to find an auditor. While auditors may not be in great quantity, I am sure sufficient auditors could be found for the purposes of the Auditor General's office.

Mr. WINCH: Mr. Chairman, I think the last speaker basically has said what I was going to say. First of all, may I express my thanks for the detailed manner in which the Auditor General has answered the question I asked last Tuesday. May I also add that I think the Auditor General is to be commended, because, if I interpret his statement correctly, he is admitting that a job which should have been done by his office is not being done. It is understandable; if we go over the staff which he has outlined from Winnipeg to Vancouver—even to the extent of almost one year in Alberta—we will find that no spot check has taken place because his man is stationed in Vancouver and has not been able to do it.

I believe the answer to the question we have just been given by the Auditor General is so important and so significant with his explanation that when we reach the point of drafting our report we should make a special note

of the information now given to us and emphasize the need for action in respect of the staff in the Auditor General's office.

The CHAIRMAN: Thank you, Mr. Winch.

Mr. HALES: It would appear that the inspectors in the field are the key men in this whole situation. Has the audit department called in the inspectors to give them any course of instruction with regard to what they should do and watch for, and brief them? Would your representative in Winnipeg call in these inspectors in a group before they go out and lay down some rules and regulations?

Mr. HENDERSON: No, sir. That would be the responsibility of the P.F.A.A. administration because that administration employs the inspectors. These cultivation acreage reports, as I believe they are called, first are looked over by the inspectors in the field, so to speak, and then they are processed right up the line towards payment. Mr. Long has a detailed summation on this.

Mr. LONG: I do not spot it in this report. I think one difficulty here is that this is more or less seasonal work. These inspectors cannot be employed the full year, if I am correct. This means you have new people, and naturally they are going to vary.

Mr. FANE: Mr. Chairman, I am wondering, since Mr. Long does not have all the details about how the prairie farm assistance works in a province, whether you would like somebody to tell you. I believe that at least the Edmonton office of the P.F.A.A. is operated very efficiently. Also, I believe that if one office had to be left out from the inspections, it very well could be that office. I have had a very great deal to do with that office, and have found they are very meticulous in their work. They do slip up sometimes because the inspectors have a lot of difficulty getting reports. The whole thing is that the inspectors are in the field and they receive their instructions. Usually these inspectors are farmers themselves; they receive instructions about what they have to do, and they have no part in the making of the decisions concerning what happens; that is done by arrangement in the local office and the head office of the Prairie Farm Assistance Act in Regina.

Every payment that is made under the Prairie Farm Assistance Act, at least in the province of Alberta, has to be authorized by the treasury department of the P.F.A.A. in Regina. No money can be paid without a submission to and approval by that office. I think there have been cases where mistakes have been made, but most often the mistakes are mistakes of omission because certain land has been left out of a block that perhaps should have been paid. However, according to the rules of the Prairie Farm Assistance Act, an area which can be paid must consist of at least 12 connected sections in a rectangular block. This makes it very difficult for people, such as Mr. Forbes' friend who is just across the road, to get paid sometimes. I have been in the same position as Mr. Forbes was at times but I also did not send back the cheque.

I think that concludes what I have to say at the moment, but I do commend the Auditor General for his comprehensive report in respect of this matter.

Mr. FORBES: I just want to clear up one point in Mr. Hales' question. There are two supervisors in the province of Manitoba. These are men who have had years of experience in P.F.A.A. work. I might say that the individuals, as Mr. Fane has suggested, are hired as casual inspectors and they are called together in a school, as Mr. Hales has stated, where they are given instruction. I have attended these schools myself.

The thing that creates some suspicion in respect of the P.F.A.A. is the method which requires that these payments be made within blocks.

Mr. HENDERSON: Yes, I understand.

Mr. FORBES: Payment is based on units of zero to four, four to eight and eight to twelve. There could be a farmer in that block with 30,000 bushels to the acre but in view of the fact he is in that block he may get paid as well as the farmers who have low yields. I think this has been worked out as best it can be worked out according to the act under which it operates.

Mr. SOUTHAM: Mr. Fane and Mr. Forbes have almost covered what I intended to refer to, but in one answer to Mr. Hales question I thought there was some confusion.

The point I wanted to make is that we do have schools to instruct these inspectors. As someone mentioned, this inspection involves casual work and is only done on a seasonal basis particularly when there is a crop failure. In Saskatchewan we have seven supervision districts I believe, because in the whole province we have a greater wheat acreage generally than in Manitoba. Mr. Hales indicated that there were two supervision districts in Manitoba.

The supervisors call in their appointed inspectors perhaps in the fall before the survey has taken place, to instruct them in the specifics of making these checks on yields.

The reason some problem arises as far as payments are concerned is that the people who are appointed as inspectors, as Mr. Forbes has mentioned, are farmers who go out to the farm to inspect the grain under specific instructions to go out and measure the bins. They are provided with charts which indicate as a result of the number of feet of grain in a bin approximately how many bushels they contain. Quite often these inspectors inspect the same farms year after year and eventually take the farmer's word rather than moving away from the kitchen tables where they are filling out forms, into the field to look into the bins. There is a human tendency on the part of anyone to become a little careless, and I think this is where some of the difficulty lies.

Mr. HENDERSON: These points have been brought out by Mr. Harris of my staff, who is here today, in his very detailed report on the situation which we have and which will be the basis of the work which, as I explained, we intend to carry out.

I should just like to say one word about the staff matter which Mr. Tardif touched upon and of which Mr. Winch spoke. It is to say that the recruitment situation at the present time is better. We are still short, I think the figure was 18, at the end of April. We discussed this situation at the opening of the meetings. We are doing everything in our power to bring the establishment up to its proper level.

I thought perhaps if it was agreeable to the committee, Mr. Chairman, that at one of our later meetings when we move to a consideration of the 1963 report we could have a short discussion on this phase because in view of the qualification I have made as to the scope of my work it will come up again for the same reason I gave today. Would that be satisfactory?

The CHAIRMAN: Yes. I believe Mr. Winch has a question.

Mr. WINCH: I do not know whether this could be termed a question or a statement in clarification of a situation which I feel exists.

As a member of the public accounts committee I am not interested in the act, the regulations, the administration, the experience or otherwise of inspectors. I am only interested in one thing and that is, the report of the Auditor General which indicates to us that in one year he was not able to do the audit work he felt it was his duty to do in respect of one \$11 million expenditure. It is the audit with which I am concerned. I appreciate, as I have said before, the fact that at a lower level there was an \$11 million expenditure made in respect of which on behalf of the citizens of Canada and the authority of parliament the Auditor General has not been able to do the job of auditing

which he feels is essential. That is the only thing with which I am concerned, Mr. Chairman.

Mr. TARDIF: Mr. Chairman, now that it has been admitted that very often the farmer's word is taken for the calculation I think there is ample indication that an audit of that particular branch is very important.

Mr. WINCH: It is more important than ever before.

Mr. TARDIF: I think the Canadian government is very lucky in that the western farmers are 100 per cent honest.

The CHAIRMAN: Before we leave this point and move on may I make this suggestion as Chairman. Last year we waited until the end of our deliberations before bringing in a report covering a great deal of matters. It has been my hope that we may bring in one or two earlier interim reports rather than wait to the end of our considerations, assuming that this session run through its allotted course.

Mr. WINCH: That is an excellent proposal.

The CHAIRMAN: You are a member of the steering committee, as are others here, and probably at some time before the conclusion of our deliberations we can consider with Mr. Henderson the idea of bringing in a third report which might, depending on the circumstances which exist at that time, pay some attention to that particular subject matter.

I think we might now move on to the other question which was asked and which Mr. Henderson has prepared himself to answer dealing with the Crown Assets Disposal Corporation.

Mr. HENDERSON: This matter related to Mr. Winch's question to me on Tuesday in regard to the method followed by departments declaring surplus material which might subsequently be sold at substantially less than its original cost as provided for in the estimates.

One of the requirements of the Financial Administration Act, as you know, is that the Auditor General examine in such manner as he may deem necessary the accounts relating to public property and to ascertain whether in his opinion essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Public property, in the context of Mr. Winch's question, consists of public stores and materials purchased by government departments with funds provided for by parliament under departmental appropriations or through the medium of revolving funds. It will be appreciated that this embraces a very wide array of material ranging from minor supplies on one hand to the vast quantities of equipment purchased in the defence and related fields.

In the discharge of our responsibility we take as our starting point the internal control procedures maintained by the various departments with respect to procurement, receipt, custody, issue and control of the material. We make periodic examinations of these procedures both at headquarters and at field depots for the purpose of satisfying ourselves in respect of the effectiveness of the procedures in effect. In the course of our work the quantities of material purchased are noted in relation to departmental need based on the responsibilities and policies of each department. The extent to which such materials might prove to be in excess of needs is evident from the extent to which they remain unused in the inventory. In reporting to departmental managements on our test examinations of stores, we bring to attention our findings in this regard for the purpose of satisfying ourselves that commodities are likely to be used ultimately for the purposes for which they were acquired or will be disposed of by transfer for use elsewhere in the department, or declared surplus.

To the extent that such supplies prove surplus; that is, in the opinion of the department they are no longer needed and are declared surplus, declaration of

such surplus is made to Crown Assets Disposal Corporation. While this is frequently the case with the Department of National Defence, it may interest you to note that no unused material, for instance, was declared surplus at all during the year 1963-64 by two of our major procuring departments, namely, the departments of public works and transport. On the other hand, in the year 1962-63 the Department of National Defence reported as surplus unused or usable materials having a cost of approximately \$39½ million. These declarations, numbering about 2,600 together with others relating to scrap and material in need of repair which were not priced, accounted for approximately 8,500 separate declarations made by the department during the year. It may interest you to know that the Crown Assets Disposal Corporation in its annual report for that same year stated that they had under review during the year some 12,000 reports of surplus. That is, they had received 12,000 declarations of surplus, so these 8,500 from the Department of National Defence represent a large chunk of the total. The declarations here in the 8,500 indicated the condition of the surplus materials, that is, unused, scrap, etc. Changes in defence policy, technological improvements, initial overprocurements, and residues of construction materials, were contributing causes to declarations of unused and usable material. Our examination of the 8,500 declarations in this fiscal year was limited to a test check covering approximately 800 declarations. That is to say, something less than 10 per cent.

The function of Crown Assets Disposal Corporation primarily in dealing with such surplus declarations is to obtain the best price it can in the market and it is not to inquire of the departments the reasons underlying the declaration of large surpluses. That remains a departmental responsibility.

From time to time in our reports we bring up instances where cases like this have occurred. I will be frank in admitting there are not many, but, for example in my 1961 report which, incidentally, was not examined by this committee, in paragraph 86 subparagraph 11 at page 41, I deal with the Pigeon River houses. I might say they have since been declared surplus during the now current fiscal year. These were houses built by I think the Department of National Revenue for customs officers at Pigeon River.

In my more recent 1963 report which you will be examining, I have a paragraph, number 84 at page 52, having to do with radar equipment acquired but not put into service. This was not declared surplus but I mention this by way of citing instances of the use of public property which I feel should be brought to the attention of the House of Commons.

The CHAIRMAN: Thank you Mr. Henderson.

Mr. Winch, do you have a question?

Mr. WINCH: This is hardly a question, sir, but I think it is rather astounding information which has just been given to us by the Auditor General and perhaps indicates the reason for my question last Tuesday. What was the figure in respect of material declared surplus by the Department of National Defence for one year?

Mr. HENDERSON: The figure is \$39,500,000 represented by 8,500 declarations.

Mr. WINCH: There was \$39,500,000 worth of materials declared surplus in one year.

I have been making a study within the past three months of this matter and this is the reason I feel this situation should be brought to the attention of the members of this committee, with the hope that perhaps Mr. Henderson will be able to give us some explanation of the authority he has in respect of investigations. May I say very briefly that I have studied hundreds and hundreds of bids reviewed by the Crown Assets Disposal Corporation from only one depot and find that there are 32 pieces of brand new lavatory articles and

on the bid it states "New and unused". I find there is a brand new unused marine engine. I found brand new and unused pieces of electrical welding equipment. I found thousands upon thousands of dollars worth of electrical fixtures new and unused. I found not thousands but perhaps hundreds of thousands approaching millions of expensive brass screws. I might point out that on the bid if there are 47 and 47 brass screws of a certain type and size the bid says 47. If there are 400,069 brass screws then the bid says 400,069 brass screws.

Whether these have been surplus from the last war or not I do not know. If they are surplus from the last war I should like to know why it took 20 years before declaring them surplus. If they are not surplus from the last war but have only been held for three months, for example, before being declared surplus I should like to know the reason for the purchase of these articles.

I think we are now performing a very important function in inquiring into this situation and I should like Mr. Henderson to indicate whether his authority and responsibility allow or require him to make a check to find out why these things were held before being declared surplus or why they were purchased in the first place, as well as to look into the circumstances generally in respect of the articles being turned over to the Crown Assets Disposal Corporation.

Does the Auditor General also have the authority and responsibility to make a check of the prices received for these surplus articles, whether they are ten per cent, 33 per cent or 50 per cent of the original cost of the new and unused materials? If the Auditor General's authority does allow him to go that far, then I should like to ask again whether this situation is being considered seriously by the Auditor General and his staff and whether there is a possibility of some of his staff being delegated to make a thorough study of purchases being made which are at some later stage declared surplus.

Mr. HENDERSON: In answer to your question and proposal, Mr. Winch, I have no hesitation in saying to you that my authority does extend that far and indeed it is my responsibility to do this. My work is carried out on a test examination basis and as we have discussed earlier in the case of the prairie farm matter, it is too frequently that the extent of the work to be done has to be determined by the staff available. However in light of what you have said I most definitely wish to make an examination along the lines that you have suggested and then report back to this committee at its pleasure.

Mr. WINCH: I have just one further question, Mr. Chairman. Mr. Henderson, when it was drawn to your attention, as it must have been, that billions of dollars worth of material was declared surplus by one department, did you undertake any special investigation to find the reason for that extraordinary situation?

Mr. HENDERSON: No, sir. As I explained before, of the 8,500 declarations, we examined approximately 10 per cent as a test check without having found anything there which we felt necessary to bring to the attention of the House of Commons. That perhaps explains why no reference was made in my report.

Mr. WINCH: Were you flabbergasted when you received that information?

Mr. HENDERSON: The figures generally are of such a size in the course of my work. I was certainly very surprised.

Mr. MANDZIUK: Mr. Chairman, I do not think we can blame the Auditor General for not going into the question when the surpluses arose. I think, as has already been stated, that the reason for it might have been a change of policy or some technological changes which have arisen. The amount of any material that is purchased is the responsibility of each department.

I take it that the \$39½ million surplus which the auditor has just mentioned is the original cost of these surpluses. My question is: What percentage of this is salvaged by disposal of it by Crown Assets Disposal Corporation, because the general impression in the country is that these surpluses are practically given away for next to nothing? Have you any tabulation or any figures on how much of this \$39½ million surplus would be realized when disposed of by Crown Assets Disposal Corporation? If we almost get our money back, then there is no harm done.

Mr. HENDERSON: That is quite right. I think I am correct in saying that we do not have that figure. However, it would be obtainable and should be obtainable.

Mr. MANDZIUK: It would be very interesting to the country.

Mr. HENDERSON: I would like to see it, and it should and could be obtained in answer to the request that Mr. Winch has made that this be undertaken. It will take some time, and it will have to be conditioned by the staff I have available. That would be the core of following through on the disposition of the \$39½ million worth of equipment in that fiscal year.

Mr. MANDZIUK: Publicity should be given to that, and we would then realize that best efforts were made to salvage what can be got out of the equipment or out of the supplies that cannot be used, probably through no fault of any department or any minister or anyone down the line.

Mr. WINCH: I hope that that will be done because that is my very point. I mentioned these thousands of dollars worth of electrical equipment. I followed that through until it was sold, and the price they received was eight per cent of the purchase tax. I know of others where they get 60 per cent, but the whole question should be studied.

Mr. REGAN: I have two or three questions arising out of this discussion. First of all, I presume that this example of \$39½ million in the national defence department for 1962-63 is an extreme example. You chose this as an extreme example of the worst year.

Mr. HENDERSON: That happens to have been the year we looked at in examining this question yesterday in response to Mr. Winch's question the day before.

Mr. REGAN: I see. The fiscal year 1962-63 would begin and end on what dates?

Mr. HENDERSON: Beginning on April 1, 1962 and ending on March 31, 1963.

Mr. REGAN: Mr. Henderson, while in national defence there would be every reason for higher figures on equipment which became obsolete because of technological change, would there be any reason why there should be greater amounts of initial over procurement in national defence than there would be in other departments?

Mr. HENDERSON: I would suggest, that you have rather answered the question yourself because the sheer size of national defence buying, the rapid technological changes, and the difficulties in estimating, so far ahead on what they are going to need, and the possible changes midstream are factors which must make procurement a very difficult proposition in this department. It is possible that Mr. Harkness could elaborate on that point, but that would be my assessment of it. They have perhaps the most difficult job of any of the government departments.

Mr. HARKNESS: I think this particular sum, or at least a proportion of the amount you mentioned, is really a disposal consequent upon the Glassco commission's report which, as you may remember, reported surpluses of a great deal of underwear which had been bought during the second world war and

which had been held in store since that time, and quite a lot of other things along that line. It was then decided to get rid of that stuff. I would suggest, in connection with this, that perhaps the deputy minister of national defence should be asked to give evidence in connection with what these things were. We could perhaps get at it more rapidly than if Mr. Henderson and his staff were to go into it and bring it back to us.

Mr. REGAN: I have not quite completed my questions. I should like to ask whether your test check of 800, of the 8,500 declarations, indicated what percentage of the equipment was unused, what percentage was equipment which had been in use for some period of time and which was no longer needed by the department. I think these figures would be of some importance because while we put a label of \$39½ million on the initial cost, if some of the equipment was used for quite some period of time, then obviously the country received some value in return for the use of this defence equipment over that period. Again I think this ties in with the point that Mr. Mandziuk made to the effect that the amount that was obtained by Crown Assets Disposal Corporation on sale is another factor to be considered. When one considers the amount of usage that was obtained from the item and one adds to this the question of the disposal of value, then we are able to see what you might call the net loss to the public—it would not be \$39½ million but something considerably less.

Mr. HENDERSON: That is right. That would be the way to do it, to carry out the work the way Mr. Winch proposed, and with which I agreed.

Mr. WINCH: Particularly on unused equipment.

Mr. HENDERSON: In the end result we would also have the computations you suggest. However, I am attracted by the suggestion of Mr. Harkness that perhaps when the deputy minister of national defence does appear before us, as I think it is planned on some of the items, he be asked to give a rundown on the type of thing that is occurring and the reasons for it.

The CHAIRMAN: We could probably conduct a more intelligent and searching examination at that time. The deputy minister and an official from his department are going to be before us with respect to a number of other matters, and if it is your wish I will have the Clerk send him a copy of the transcript of today's proceedings, and we might also deal with both aspects. Later on, when we deal with the Auditor General's report, we will have to deal with his report in connection with the Crown Assets Disposal Corporation, and it might be considered that we should have an official from his department at the same time, so you will have both ends of the picture. This is something which we will take up with the steering committee and at an appropriate time try to have one, or possibly both, officials here at the same time.

Mr. RYAN: I have a couple of short questions, Mr. Chairman. I would like to be clear on one point: Is this form of declaration standard in all the departments of government?

Mr. MILLAR: I do not know whether they are standard for all departments but I think so.

Mr. RYAN: Is it standard in all the departments you inspected? Do you get a good history of the article or the goods, and do you get the date of the original purchase?

Mr. MILLAR: The reason for the procurement is unknown. We find that on many declarations.

Mr. RYAN: Sometimes you find it is merely a certificate that it is surplus but no other explanation.

Mr. MILLAR: That is about it, on many of them.

Mr. RYAN: We should check these declarations, particularly in respect of unused articles. I might suggest that the steering committee consider that a subcommittee be set up to check this matter.

Mr. WINCH: May I suggest that you consider asking for a supply, of a general nature, of bids as sent out by Crown Assets Disposal Corporation. In particular I would like to get those which I saw in the last two or three months, because it would really open the eyes of the members of this committee.

Mr. MANDZIUK: My question is: who signs these declarations and who countersigns them, what official in any particular department? Do they ever reach the deputy minister or his deputy?

Mr. MILLAR: It is usually signed by authorized officers, as far as national defence is concerned, and then it is reviewed by the deputy minister's office. It is then approved by the deputy minister's office before it goes to Crown Assets Disposal Corporation.

Mr. TARDIF: Are there no regulations which force officers responsible to declare why this has become surplus?

Mr. MILLAR: There are explanations given where it is possible to do so, but in many cases their material is so old that the history of it has disappeared.

Mr. TARDIF: If they had a \$39 million surplus to dispose of, this may have been an unusual year, as Mr. Harkness stated.

Mr. HARKNESS: I am sorry I was not here earlier but I had a dental appointment this morning. Is the \$39 million all equipment or is part of that land?

Mr. HENDERSON: The Department of National Defence made 8,500 declarations of surplus to Crown Assets Disposal Corporation, the dollar value of which was \$39½ million during the year 1962-63.

Mr. HARKNESS: Part of that could be land?

Mr. HENDERSON: Yes.

Mr. MILLAR: Yes.

Mr. HARKNESS: Because in that period, again consequent upon the Glassco commission's report, they considered that the Department of National Defence had quite a bit of land which was really surplus to their requirements.

Mr. WINCH: In 1962-63?

Mr. HARKNESS: There was some disposal of this which entered into it, as well as old equipment which had been sitting there ever since the second world war, immediately following the Korean war period. That is why I think the best way to get at this is if the deputy minister and officials in his department outlined what these things were.

Mr. WINCH: I am a bit worried. I understand Mr. Harkness has just come from a dental appointment—would that make him more biting than ever?

Mr. HARKNESS: Less at the moment, I would think.

The CHAIRMAN: We are being very reasonable, I think. In addition to what I said before, if we had an official from Crown Assets Disposal Corporation here, then the question which you raised, Mr. Tardif, might be taken up by them.

Mr. TARDIF: I did not finish my questions. I guess Mr. Harkness' contribution was more important and I was listening to it. Would it not be a good idea for this committee to recommend that a standard form be used in all departments for this purpose, and that we emphasize the necessity of giving a reason for the surplus? If they are going to buy \$39 million worth of equipment—if this is a standard year, and I do not think it is—if there is going to be that kind of surplus every year, then the history should be put on the article when it is bought because eventually some of it will become surplus.

The CHAIRMAN: That is one way we might make our contribution in connection with this report.

Mr. TARDIF: And a standard form should certainly be used by all departments.

The CHAIRMAN: Are there any more questions on this? We are not through with it but it is being stood over until we can get the officials here.

Mr. MANDZIUK: Mr. Chairman, while we are on this subject and it is fresh in our minds, could we have the deputy minister or officials of Crown Assets Disposal Corporation come here within a short period of time, or are you going to ask them to come when we reach a certain stage in our deliberations?

The CHAIRMAN: This is a matter for the committee to decide. The steering committee will consider it and bring its recommendations back. You will find, I think, that the Department of National Defence is interested in several matters which we will be approaching in the not too distant future, and some time, from the point of continuity and so as to try to arrange the presence of departmental officials who can be here to cover all these items, we will try to get them all together. However, if the committee wishes to have the officials of these two departments present, we can arrange it, but I think possibly the matter should be brought to their attention and we should probably have other matters dealt with in the meantime. I assure you the steering committee will consider it and will report back.

Mr. HENDERSON: May I make one suggestion if members feel it would help? My suggestion is that I and my staff make a special effort to produce a quick but more detailed report covering these points which we could discuss with the officials and bring to the committee no later than three weeks from now so that you could study it. It is a report to which they perhaps would subscribe also so that you would have the facts in front of you on such things as the liquidation of the \$39½ million figure. After checking the records of Crown Assets Disposal Corporation we might have a tabulation to show that. It might not be completely accurate but it would be sufficient for you to see this matter in focus.

Mr. WINCH: I understand that you are going to ask the officials of Crown Assets Disposal Corporation to come before the committee.

The CHAIRMAN: If it is the wish of the committee. They might be present at the same time as the Minister of National Defence.

Mr. WINCH: Would you, in your communication, ask for a detailed explanation of administrative costs and procedure because I am a bit disturbed on that also when I see, as I have seen, let us say approximately one million brass screws being offered for sale on bids and each size being outlined. If we have staff for counting 47 of this, 98 of that and 100,000 of that, then I am afraid the amount we get back is going to be far overcome by the cost of doing it. I would like to have an explanation of this.

The CHAIRMAN: It is the wish of the committee that this be not done until Mr. Henderson has produced his memorandum which will be useful to us?

Mr. HENDERSON: I would propose producing this memorandum in co-operation with officials of both the Department of National Defence and Crown Assets Disposal Corporation in order to pinpoint the subject matter of this discussion. It could be a memorandum to which they would subscribe, and you would then have the facts and be able to direct better questions.

The CHAIRMAN: We will then move on to where we indicated we would commence our review of the Auditor General's report for the year ended March 31, 1962, which is at page 29, item No. 75, which reads:

75. Education costs incurred by Department of National Defence. The department, under executive authority, provides educational facilities for children of personnel of the regular forces and entitled civilians residing in public quarters by (a) the establishment and operation of departmental schools, and (b) the utilization of nearby civilian school facilities. As of December 31, 1961 the department was operating 75 schools at 48 different locations in Canada to accommodate about 28,750 children, where suitable educational facilities were not available within a reasonable distance, while some 9,750 children were attending civilian schools. In Europe the department operated 22 schools at 13 locations with 7,850 pupils in attendance.

The cost of this function for the fiscal year is not reflected as such in the public accounts; however, financial statements prepared by the department on a memorandum basis for the calendar year ended December 31, 1961 show costs (including \$1,390,000 for outlays for new construction and \$1,876,000 for non-resident fees paid to civilian school boards) totalling \$15,100,000, offset by provincial school grants of \$2,400,000—a net cost of \$12,700,000.

The largest item of gross expenditure was \$6,525,000 for the salaries of the 1,295 teachers employed to staff the schools in Canada. In the course of our examination it was observed that the over-all pupil-teacher ratio in the departmental elementary schools was about 22 to 1, which is considerably below the average ratio for such schools in Canada, generally. Moreover, at about 75 per cent of the schools, the ratio was less than 25 to 1 and at 13 of these it was less than 15 to 1. On the situation being brought to the attention of the department, it undertook to make enquiries into the pupil-teacher ratios at schools where the ratio is less than 25 to 1.

Mr. HENDERSON: With your permission, Mr. Chairman, I will speak to these and perhaps we can move through some of them fairly rapidly depending upon the questions which you may have to ask.

Paragraph 75, on page 29 of my 1962 report, has to do with the education costs incurred by Department of National Defence. This comment is, in principle, informational for the house because it did not seem to me that it was generally realized the extent to which the Department of National Defence operated schools. You will note there is nearly 100 of them in Canada and Europe, and you will note their cost. We also drew attention to the pupil-teacher ratio here which, in about 75 per cent of the schools, seemed to be on the low side although I suppose that is what one might expect in an establishment of this kind.

The CHAIRMAN: Are there any questions on this item or can we move on to paragraph 76 which reads:

76. Loss of aircraft due to negligence. Normally the Auditor General's annual reports do not include comments on losses of defence property and equipment resulting from the ordinary hazards of military operations, even when substantial amounts are involved. However, the following case is noted for the reason that the circumstances surrounding an accident involving R.C.A.F. equipment indicated that there had been undue negligence not only by the pilot but also by the administrative officers concerned.

A reserve pilot serving with a Toronto auxiliary squadron was authorized to fly a service aircraft for local proficiency practice. In violation of regulations, the aircraft was landed at an airfield other than the one of departure. During an attempted take-off from this airfield a strong cross wind, which exceeded the specified limitation for

the operation of the aircraft, rendered it uncontrollable and it crashed through a fence striking five automobiles parked on a road bordering the airfield. The pilot suffered only minor injuries but the aircraft, valued at \$125,000, was a total loss (less salvage of \$22,000) and damage claims totalling \$1,962 were paid to the owners of the automobiles.

Following an official inquiry which brought out that there had been a lack of supervision in monitoring the pilot's training, action was taken to insure a greater degree of supervision over local flying by the reserve air force.

Mr. HENDERSON: Paragraph 76 is a report on the loss of aircraft owing to negligence.

Mr. FANE: Mr. Chairman, is this in the latest report?

Mr. HENDERSON: It is in the report of 1962, at page 30.

The CHAIRMAN: We are carrying on where we left off last year.

Mr. TARDIF: What page?

The CHAIRMAN: Page 30, item 76.

Mr. HENDERSON: Paragraph 76 deals with the circumstances whereby an aircraft, valued at \$125,000, was lost owing to lack of supervision and monitoring the pilot's training.

The CHAIRMAN: Might I just say on that particular item that there was a letter addressed to me as Chairman of the committee last year from the pilot who was involved in this particular incident, following a letter from a Toronto solicitor who was his counsel. At that time he asked if it would be permissible for him to appear before this committee. I followed this correspondence up, not knowing if we would reach this item last year, but it appears the reason he wished to appear before the committee was that he felt he had not been given what he considered was a fair opportunity to answer the allegations against him. I believe he had completely misconceived the role of this committee which simply is to inquire into Mr. Henderson's report, and the recommendations he makes. I explained to him by correspondence that anyone who wished to appear with relation to a relevant matter was entitled to do so; but I explained to him that our role was not one in which we could inquire into the question of whether or not there was negligence, and that we were not a court of appeal from the court of inquiry. However, I advised him that if he had any other observations he wished to make which were relevant to our function, he was at liberty to appear; but I heard nothing further from him. I thought I should bring this to your attention.

Mr. REGAN: Is this the same matter we discussed last year?

The CHAIRMAN: I do not believe it was discussed in the main committee. It was discussed at a meeting of the steering committee in the expectation that we might reach this particular item in the main committee which did not happen.

Mr. HARKNESS: I remember this case very well indeed. The pilot concerned was released from the reserve forces. He entered an address of grievance as a result of this. He felt very strongly that he had been discriminated against. In other words, the department took disciplinary action so far as he was concerned, to which he strongly objected, by instituting an address of grievance. Finally, the matter went to the chief of the air staff; he appealed further to me, and then appealed my decision to the Governor General. This case went as far as it could go under our procedures.

The CHAIRMAN: I, in fact, indicated that we did not constitute ourselves as a court of appeal from the Governor General.

Mr. HARKNESS: The point I would like to make is that there was this loss of an aircraft owing to negligence, and the department did take the only action which was open to it.

Mr. REGAN: Mr. Chairman, I could not say in stronger terms that it would be an extremely poor public policy to go after a man such as this pilot for the cost of an aircraft which was lost owing to negligence. The nature of mankind is such that all of us at one time or another are negligent to some degree. If we are going to be in a position to attract persons to operate our aircraft, our ships, or other equipment in the armed forces, then, certainly, we would make it very difficult for a person to be willing to undertake such a career if he had the feeling that through some momentary negligence and the loss of government equipment in his day-to-day occupation he could become involved in a debt in the amount of some hundreds of thousands of dollars. Perhaps there should be some form of insurance carried against the possibility of such negligence. However, in the absence of having carried such insurance over the years, no doubt we have saved a great deal by bearing the expense ourselves.

I believe it would be poor public policy to hold an individual in the armed forces responsible for the loss of government equipment which loss resulted from negligence. Mind you, if it were purposeful destruction of equipment done with malicious intent, this would be a very different matter. Everyone operating a motor vehicle at some time is negligent to some degree if circumstances occur which bring it to light. By the same token, persons who operate ships, or airplanes day by day must run into situations where, the human factor being present, they would be negligent. I believe we should take a strong stand to see that they do not go after this man, or any other man in similar circumstances, for such a vast sum of money.

Mr. TARDIF: I do not think there has been any such recommendation.

The CHAIRMAN: I think what prompted Mr. Henderson to refer to this matter is that he felt there may have been some lack of supervision in the monitoring of the pilot's training. Since then action has been taken to supervise a greater control over local flying by the reserve air force.

Mr. REGAN: Am I not correct in understanding there was a suggestion by you, Mr. Henderson, that the pilot should be billed for this?

Mr. HENDERSON: No. I have pointed out that this case was noted for the reason that the circumstances surrounding the accident indicated there had been undue negligence, not only by the pilot but also by the administrative officers concerned. You will note that following an official inquiry it was brought out that there had been lack of supervision in monitoring the pilot's training. The fact that he was discharged from the air force is the type of action that was taken under the regulations of the Department of National Defence.

Mr. HARKNESS: I might say this was a very tangled case. The individual concerned still strongly feels he has a grievance, to the extent that I believe he has engaged a lawyer in an effort to continue to fight this case.

Mr. WINCH: Where can he go after the Governor General?

Mr. HARKNESS: There is nowhere he can go, but I believe he did ask for permission to institute legal action against somebody. As I remember it, this permission was not granted. As I say, this was a very tangled case, and one in which I do not believe this committee has any change of trying to adjudicate. This is the type of thing we are not set up to go into.

Mr. REGAN: Did the correspondence which you had, Mr. Chairman, indicate a misapprehension on his part that he thought he would be billed for the cost of the aircraft?

The CHAIRMAN: I think what he was more concerned about was that he felt his reputation had been tarnished, and he wanted an opportunity to ventilate his case and bring the fact forward. In reply, I pointed out that our function was specifically limited to what the Auditor General had reported to us. I also replied to his counsel that while we were not prohibiting him from appearing, I did not see how the sort of thing that he wanted to open up properly could be opened up in this committee. He wanted rather to form a court before which he could place his facts.

Mr. HARKNESS: He brought in information concerning the strength of the crosswind, and so on. He claimed he had certain witnesses who could substantiate this. This is the same situation as that which would arise in a civil dispute in which one side claims one thing and the other side claims another thing.

The CHAIRMAN: May we move on to item 77, which reads:

77. Acceptance of inferior coal without adjustment. While heating equipment can be designed to burn coal having a specified sulphur content, heavier maintenance costs can arise if coal with a substantially higher sulphur content is used. Although contracts for coal for the Department of National Defence state the maximum acceptable sulphur content, no financial penalties are provided for in the event that tests of coal delivered reveal that the maximum has been exceeded.

To illustrate, contracts with the same supplier for the supply of coal to an army camp during the period from 1959 to 1962, amounting in all to \$576,000, specified a maximum acceptable sulphur content of 5.7 per cent, but laboratory analyses of the coal delivered indicated that this specification had not been met; in fact, the analyses demonstrated that the sulphur content had varied between 6 per cent and 15.7 per cent. During the three year period abatements amounting to some \$17,900 were made from the supplier's billings to compensate for calorific deficiency and unsuitable sizing of the coal delivered. We were informed that excess sulphur contributed in some degree to the calorific deficiency referred to; however, no specific adjustments, financial or otherwise, were sought or made with the supplier to compensate for the excessive sulphur content in the 59,500 tons received, and the contract was allowed to run its course.

The advisability of including a provision for financial adjustment in respect of excess sulphur content in the general specifications applicable to all coal contracts is now under consideration by the department and the Canadian government specifications board.

I would point out, gentlemen, that we will have to make way in five minutes for our successor in this room, the defence committee.

Mr. HENDERSON: Paragraph 77 refers to failure on the part of the Department of National Defence to include provision for financial adjustment in respect of sulphur content in excess of that specified in coal contracts. Although some abatement was made, no specific adjustments had been made by the department for the supplier to compensate for excess of sulphur content in the coal received, and the contract for 59,500 tons was allowed to run its course. I understand that the Department of National Defence contracts now include a sulphur content adjustment clause.

Mr. WINCH: In other words, your recommendation has been accepted?

Mr. HENDERSON: Yes, sir.

Mr. TARDIF: Does this excess of sulphur content deteriorate the equipment?

Mr. HENDERSON: I believe that is one of the results.

Mr. TARDIF: Is that taken into consideration in the new specification?

Mr. HENDERSON: That is my understanding.

Mr. B. A. Millar (Audit Director, Officer of the Auditor General): Unless the equipment is designed especially to burn coal having a high sulphur content, it may become damaged. Before a contract is let for coal with a sulphur content, they make sure the equipment can take it.

Mr. TARDIF: If it damages the equipment is the amount of the damage taken into consideration when the adjustment is made?

Mr. MILLAR: The adjustment now is quite specific. There is a one per cent tolerance over and above the specification, and then there is an adjustment if it goes above the one per cent.

Mr. TARDIF: And the possible damage to the equipment is figured in this adjustment price?

Mr. MILLAR: That was a factor in determining it.

Mr. WINCH: I notice in this report that it deals with 59,500 tons. For information, may I ask how often are tests made on coal deliveries in respect of sulphur content? Here we have 59,500 tons, and I do not imagine a laboratory test is made of each ton.

Mr. MILLAR: At the beginning of each year, the service establishes a test program. They do not test all deliveries of coal, but they make selections. We consider what they have done is quite satisfactory so far as testing is concerned.

Mr. WINCH: Thank you.

The CHAIRMAN: Paragraph 78 reads:

78. *Renovation of remote transmitter station, Halifax.* In January 1961 a contract for \$229,330 was awarded by the Department of Defence Production for renovation of antennae and transmission lines at an air force station near Halifax. The site test drawings indicated the bedrock to be from two to 14 feet below the surface. However, during excavation the contractor discovered that the bedrock was from 18 to 25 feet below the surface in many places. In order to achieve the specified firm bearing of solid rock on which to place the antennae masts and guy anchors, it was necessary to extend the foundations as much as 13 feet below the elevation indicated on the drawings. In order to do this, a complete re-designing of both the layout of foundations and their method of construction was required, and the contract was amended to provide for the additional costs of \$287,326 which resulted.

Attention is drawn to this expenditure because the contract was amended to an amount more than double that originally called for.

Mr. HENDERSON: Paragraph 78 deals with renovation of a remote transmitter station in Halifax, and you will note that the circumstances outlined show how the contract awarded for renovation of this transmitter station was amended to an amount more than double the original cost.

Mr. WINCH: Have you made any investigation with regard to the basis of the engineering on which the contract was let without proper information, resulting in a double cost, and did you receive any satisfactory explanation of that?

Mr. MILLAR: No. We had no satisfactory information with regard to why the original information did not disclose the condition of the subsoil.

Mr. TARDIF: Were test borings made before the contract was given out?

Mr. MILLAR: Test borings were made, but whether or not they were satisfactory is a matter which I do not know.

Mr. WINCH: Were any inquiries made by the department in an effort to try to recover anything in the way of a monetary return from the engineering

firm because of a mistake in engineering which resulted in a double cost to the department and to the taxpayers of this country?

Mr. MILLAR: I think the engineering was done by the air force.

Mr. HENDERSON: I had this matter noted as one on which you may care to refer to the deputy minister when he is before the committee.

Mr. REGAN: Assume that it is accepted there was an error in the engineering regarding where the bedrock was, do you feel this was sufficient to cause the contract to be increased to the extent it was?

Mr. MILLAR: I would think so, from the action taken in amending the contract.

Mr. RYAN: Could there have been a simple mistake in measurement; is there anything to point out how or what caused the mistake?

Mr. MILLAR: I do not think so.

The CHAIRMAN: Paragraph 79 reads:

79. *Benefit paid under the Canadian Forces Superannuation Act to a "divorced" wife.* An air force officer with less than five years service died of natural causes while serving in the United States. Shortly before his death his wife had obtained a divorce in that country and had remarried. As this divorce was not recognized as legal in Canada the woman, as the "widow" of the deceased officer, was paid a cash termination allowance of \$3,428 and, in addition, the supplementary death benefit of \$5,000. From the legal point of view, these payments are not questioned but they appear to be unrealistic in that they were made to a person who was no longer, in the accepted sense, the wife of the serviceman at the time of his death.

The Canadian Forces Superannuation Act only permits executive discretion in withholding an award from a widow if it appears that for a number of years immediately prior to the serviceman's death she had been living apart from him. Consideration might be given to amending the act to provide for the enlargement of the executive discretion, to deal with unusual cases such as that referred to above.

Mr. HENDERSON: Paragraph 79 describes—

The CHAIRMAN: It is five minutes to 11. I see the other committee members are arriving. We will adjourn now until 9.30 on Tuesday morning.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 4

Public Accounts, Volumes I, II and III (1962)
Report of the Auditor General to the House of Commons—1962

TUESDAY, JUNE 9, 1964

WITNESS:
Mr. A. M. Henderson, Auditor General of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,	Grafftey,	Rinfret,
Beaulé,	Gray,	Rochon,
Berger,	Hales,	Rock,
Cameron (<i>High Park</i>),	Harkness,	Rondeau,
Cameron (<i>Nanaimo-</i>	Lessard (<i>Saint-Henri</i>),	Ryan,
<i>Cowichan-The Islands</i>),	Loiselle,	Scott,
Cardiff,	Mandziuk,	Skoreyko,
Chaplin,	McLean (<i>Charlotte</i>),	Smith,
Côté (<i>Chicoutimi</i>),	McMillan,	Southam,
Crouse,	McNulty,	Stefanson,
Drouin,	Muir (<i>Lisgar</i>),	Tucker,
Dubé,	O'Keefe,	Valade,
Fane,	Pigeon,	Wahn,
Forbes,	Pilon,	Whelan,
Francis,	Regan,	Winch—50.
Frenette,	Richard,	
Gendron,	Ricard,	

M. Slack,

Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, June 9, 1964.

(5)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cameron (*Nainimo-Cowichan-The Islands*), Côté (*Chicoutimi*), Crouse, Forbes, Frenette, Gray, Harkness, Mandziuk, McLean (*Charlotte*), McMillan, Pilon, Rock, Ryan, Southam, Stefanson, Tardif, Tucker, Wahn, Winch—(21).

In attendance: Mr. A. M. Henderson, Auditor General of Canada and Messrs. Long, Millar, Smith, Douglas, Crowley and Laroche of the Auditor General's Office.

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

On paragraphs 79 and 80: Mr. Henderson made brief comments and was questioned thereon.

On paragraph 81: After a brief comment by the Auditor General, this paragraph was allowed to stand until the Deputy Minister of National Defence appears before the Committee.

On paragraph 82: Mr. Henderson made a short statement and was questioned thereon. The Auditor General undertook to supply the Committee with copies of claims regulations of the Department of National Defence and the general regulations respecting claims.

On paragraphs 83 to 89 inclusive: The Auditor General supplied additional information and was questioned thereon, assisted by Messrs. Long, Millar and Douglas.

The questioning of Mr. Henderson still continuing, at 11.00 a.m., the Committee adjourned until 9.30 a.m. on Thursday, June 11, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 9, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. I would ask the meeting to come to order.

At the end of our last meeting we were about to start paragraph number 79 of the Auditor General's report, 1962, which appears on page 31 of the report.

I would like to ask Mr. Henderson to comment on this particular item.

Mr. A. M. HENDERSON (*Auditor General of Canada*): We are going through the numbered comments which I will refer to briefly as we reach each one allowing time for discussion and questions. Perhaps on that basis, sir, we could move along at a greater speed.

Paragraph 79 on page 31 of the 1962 report explains the circumstances under which the wife of a deceased air force officer, having obtained a divorce in the United States before his death, remarried and thus became eligible for a cash termination allowance paid by the Department of National Defence, which amounted to \$3,428, and also a supplementary death benefit of \$5,000, the reason being that her divorce was not recognized under Canadian law. As I say in the note, these settlements are not questioned from any legal point of view but I cited the case by way of suggesting that consideration might be given to amending the Canadian Forces Superannuation Act in order to provide for the enlargement of the executive discretion in dealing with unusual cases of this character. We understand that the Department of National Revenue and the treasury board since have agreed to suggest such a revision to this act as or when it might next come up for consideration by parliament.

Consequently, I suppose you might say this is on track toward remedial action.

Mr. Millar, do you have any further information on this point?

Mr. B. A. MILLAR (*Audit Director, Auditor General's Office*): No. Mr. Henderson; that is as much as we know. There is the intention of amending the act in due course.

Mr. MANDZIUK: Mr. Chairman, this might seem like an idle question but who decides the validity or otherwise of this woman's divorce, and did that come into your sphere of interest?

Mr. HENDERSON: No, that would not come into mine, Mr. Mandziuk, but the divorce that the lady obtained was not recognized in Canada and, presumably, the Department of National Defence would have realized that.

Mr. MANDZIUK: To follow this line of questioning up, that matter was pursued after these moneys were paid out. Am I correct in my understanding of this situation?

Mr. HENDERSON: Well, we noticed the payment going out and the circumstances under which it went out and because it seemed a very unusual case we inquired into it, thereby giving rise to this note.

Mr. MANDZIUK: Would it be unusual for the department to pay out moneys in spite of the doubt which someone might have had in respect of the validity of such a case?

Mr. HENDERSON: Provided their regulations permit it, yes. This is what happened here; this was not a divorce within their recognition and, accordingly, she was as eligible as the next person to this settlement.

Mr. McMILLAN: Did this lady apply for the supplementary benefit or was it paid out automatically?

Mr. HENDERSON: Would you care to answer that question, Mr. Millar?

Mr. MILLAR: It was paid out automatically. It was due to her or the estate, but in this case as she was the wife it was paid to her.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Chairman, I recall during the war provisions were made for paying allowances to common law wives in many instances. I, myself, have been asked to inquire into such cases and I recall that the position taken at that time was that if it was a permanent, stable, relationship the woman was regarded as the man's wife. Would that apply in a case such as this?

Mr. HENDERSON: I suppose you might say this is the reverse situation because there really was no relationship.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Although there would appear to be a link between the two you are saying that the legality of the relationship is the question in point.

The CHAIRMAN: There was an amendment to one of the pensions acts not so long ago which permitted payments to a common law wife, but they did not apply here; it was restricted to that particular pensions act.

Gentlemen, are there any further questions?

Mr. McMILLAN: According to this, the executive has the discretion to refuse payment to a wife who is living apart for a number of years. Is there anything definite in respect of the number of years?

Mr. HENDERSON: That is true. Could you comment on this, Mr. Millar?

Mr. MILLAR: The act just says a number of years immediately prior to his death. But, that is the only discretion they have.

Mr. McMILLAN: How long had this lady had a divorce?

Mr. MILLAR: Just a short time.

Mr. HENDERSON: Yes, it was just a short time.

I think if we might follow up the steps which the department and the treasury board intend to take toward revising this act we then might report back to the committee if, in fact, nothing is done when the act is opened up for amendment. It would seem to me to be the point you would like me to follow up.

The CHAIRMAN: Possibly we could discuss this further when we are dealing with the 1963 report and, in particular, some matters in respect of national defence or this particular act.

Mr. HENDERSON: We will have the deputy minister before us at some time in the future and at that time we can make reference to it, if that is your wish.

The CHAIRMAN: Yes, that would be fine.

Paragraph 80 follows:

80. *Aircraft and equipment received under Canada-United States defence agreement.* During the year under review an agreement was entered into between the Canadian and United States governments whereby, among other things, Canada acquired 66 F-101 (Voodoo) aircraft and appropriate support equipment in return for an undertaking to operate and maintain certain Pine Tree radar line stations until 1968 (at a total estimated cost of \$170 million). This agreement was announced in the House of Commons (debates, 1960-61, pp. 6179-80).

The aircraft and equipment were recorded, quantitatively, as additions to air force inventories in accordance with normal departmental practice. However, the value of the items was not recorded in the government's central accounts and consequently is not included in national defence expenditures for the year. Neither is there any explanatory reference thereto in the public accounts.

Mr. HENDERSON: Paragraph 80 recites the circumstances under which aircraft and equipment was received by Canada under the Canada-United States defence agreement. Perhaps you will recall this agreement was discussed in some detail in committee of supply in the House of Commons during consideration of the air force estimates in 1961-62.

I have drawn attention to this in my report to show how aircraft and equipment valued at approximately \$170 million was not recorded. However, the value of the items was not recorded in the government's central accounts or included in national defence expenditures for the year. Now, it is my opinion that a transaction such as this should have been referred to in the public accounts, if only by a parenthetical note or a reference by the Department of National Defence because it has a bearing on the activities or expenditures of that department, and unless recognition is given to the principle of recording transactions of this character in this way you will appreciate, I think, that the system of internal financial control tends to be weakened.

I do not know whether or not members have any questions on this matter. That was the observation I made at the time, which I considered to be a valid one in the circumstances. I would like to have seen it referred to in the public accounts because I think it had a place there.

The CHAIRMAN: Are there any questions on this particular item?

Mr. WAHN: How would this expenditure be authorized in fact, if it was an expenditure of \$176 million for 66 aircraft and paid for by the services? Would this not have to come under some general item in the estimates and receive some parliamentary approval?

Mr. HENDERSON: Well, Canada for its part, as explained in the note, undertook to operate and maintain certain Pine Tree radar stations until 1968, at a total estimated cost of \$170 million. That aspect of the expenditures was of course explained in the estimates, and in fact was adopted and passed. I have made reference to which. We received 66 101 Voodoo aircraft and appropriate support equipment. My point is that I think the members should have been advised from the public accounts, which should have reflected the fact that that was what Canada received in return for the \$170 million that you voted.

Mr. TARDIF: Would it not have eliminated both by setting forth what we did pay in fact of what we had to pay?

Mr. HENDERSON: That is true; but the nature of the transaction was a swap between Canada and the United States. A parenthetical note of some description is the way I would like to have seen this recorded in the public accounts; otherwise it is lost track of and any system with internal outlays tends to be weakened.

Mr. MANDZIUK: Would the Auditor General question the authority to spend this \$170 million?

Mr. HENDERSON: Well, the \$170 million was set out in the estimates and passed by parliament.

Mr. MANDZIUK: Oh, yes.

Mr. HENDERSON: We accepted aircraft in payment from the United States.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It seems to me that we spent the \$170 million for the upkeep of the Pine Tree line.

Mr. HENDERSON: And in return we accepted the aircraft.

Mr. HARKNESS: In actual fact some of these Pine Tree line stations have been closed, so actually the cost would have been less than this amount.

Mr. HENDERSON: The agreement was explained in detail in the house.

Mr. HARKNESS: And in addition there was another very considerable complex deal which also involved the joint purchase and manufacture at Canadair of approximately 150 104 aircraft for mutual aid in Europe.

Mr. HENDERSON: Yes.

Mr. HARKNESS: That was part of the same deal.

The CHAIRMAN: Would it not be correct to ask if in each year that the moneys were spent for the maintenance of the Pine Tree line there would be an item in the estimates covering that particular amount?

Mr. HENDERSON: That is right.

The CHAIRMAN: But your point is that at the beginning of the whole transaction a note would have been desirable to explain the basis of it.

Mr. HENDERSON: Well, my comment or criticism here is purely on the method of recording this transaction and on no other aspect. It seems to me—and I know business concern who enter into a transaction of this type would realize that it becomes a matter of some importance that it be clearly recorded—that the same principle should be recognized in government. I would like to know if you gentlemen would not agree with me on that point.

Agreed.

Mr. MANDZIUK: In the final analysis Canada was not money out.

Mr. HENDERSON: Oh, no, sir, not at all.

Mr. MANDZIUK: It was just a matter of bookkeeping, wat it not?

Mr. HENDERSON: Well, I did not employ those words, but I think it would be more in keeping with standard accounting practice were such a transaction recorded in the manner which I described.

The CHAIRMAN: Are there any further questions? Shall we move on to paragraph 81.

81. *Financial assistance to the Town of Oromocto.* Vote 247 provided for grants to the town of Oromocto for municipal services and to promote the development of the town, and grants of \$1,529,400 were paid under this authority during the year under review.

In 1955 the approval of the governor in council was obtained by the Department of National Defence to develop the proposed town, which was in due course incorporated in 1956 by an act of the province of New Brunswick. The main purpose of the development was to provide municipal facilities to serve personnel stationed at Camp Gagetown, while, at the same time, avoiding the growth of a purely military community. It is administered by a board of seven commissioners, four appointed by the federal government and three by the province.

In order that the town would not start under a heavy burden of debt the department turned over to it, without charge, the roads and services already installed in the service housing area, together with certain parcels of crown-owned land. This assistance was augmented by capital grants totalling \$1,500,000 and an arrangement was made whereby capital assistance loans, to be secured by the town's debentures, could be made. As the town did not have the usual type of municipal tax structure, it was also arranged that until it had developed to a point where it could operate normally the federal government would pay annual operating grants, representing the difference between the town's operating expenses and its revenues. In this connection it was proposed that the initial

operating grant should be \$100,000 for 1955-56 with annual increments of approximately \$25,000 during the next five years, the actual amount of each increase to be approved by the treasury board. While it was anticipated that the assistance by the department during these first few years would suffice until the town could operate normally with the aid of grants under the Municipal Grants Act, this has not turned out to be the case and federal grants towards operating expenses of the town have continued at a very high level. The following table summarizes the outlays of public funds since the town was established:

Year	Capital grants	Capital assistance loans	Operating grants
1955-56	\$ 750,000	—	\$ 50,000
1956-57	750,000	—	50,000
1957-58	—	\$ 1,500,000	350,000
1958-59	—	1,500,000	960,000
1959-60	—	1,000,000	1,656,000
1960-61	—	450,000	1,600,000
1961-62	—	—	1,529,000
	<u>\$ 1,500,000</u>	<u>\$ 4,450,000</u>	<u>\$ 6,195,000</u>

Repayments received in respect of the capital assistance loans totalled \$423,000 to March 31, 1962, together with interest amounts totalling \$692,000.

The town's operating costs for the calendar year 1961 amounted to \$1,602,000 while its revenues totalled only \$81,000, including tax revenues of \$27,000 and provincial governments grants and subsidies of \$9,000. The Department of National Defence owns 1,900 housing units in the town, representing about 90% of the value of all town property.

Attention is drawn to the foregoing because, in addition to the extensive grants and loans made for capital purposes, the operating grants that were required to be made since 1956-57 have greatly exceeded original expectations and there seems little likelihood of the town being able to operate normally in the foreseeable future (see also paragraph 142).

Mr. HENDERSON: Paragraph 81 describes how grants and loans were made to the town of Oromocto, New Brunswick, and the extent to which they have exceeded expectations, with little likelihood that the town can operate normally in the foreseeable future. It might be better if we should withhold discussion of this item perhaps until you have the deputy minister of national defence present who might care to speak on this particular case. However, we can deal with any question that you might have.

Mr. McMILLAN: I notice that the government owns 90 per cent of the property and that somebody else owns the other 10 per cent, I take it. Do they have a definite tax structure in that town?

Mr. HENDERSON: I believe so, Dr. McMillan. Perhaps Mr. Millar could speak to this.

Mr. MILLAR: There seems to be a definite tax structure because they received certain amounts by way of taxes.

Mr. HARKNESS: Yes, there is a definite tax structure. The whole thing is that the amount of land that is privately owned and subject to tax it is very small. Practically the whole town is D N D housing and associated utilities. The

shopping centre, which is the chief business end of the town, is owned by a crown corporation, but the title of it is under the Department of National Defence also. Therefore you have nothing to tax in the normal sense except this very small amount of privately owned property. And this grant which has been made was made as being the equivalent to what would be granted, let us say, to the city of Ottawa or to any other city where D N D property exists, in lieu of taxes.

Mr. McMILLAN: In other words, the government pays no other tax than these grants.

Mr. HARKNESS: They make these grants in lieu of taxes under the Department of National Defence; whereas in most cases it is made by the Department of Finance. For example, I do not know how many millions a year go to the city government of Ottawa in lieu of taxes.

The CHAIRMAN: Does the committee feel it would like to stand this item in case any further information is requested when the deputy minister is here at a later date?

Agreed.

Paragraph 82.

82. *Unauthorized use of crown-owned vehicles.* From time to time cases have been observed in the audit where accidents which have been costly to the crown have occurred during the unauthorized use of National Defence vehicles. For example, in the year under review a payment of \$14,500 was made to a woman who suffered injuries when struck by a departmental vehicle that had been used without authority in England in 1958. The driver of the vehicle was reprimanded and undertook to reimburse the crown \$250, a sum equivalent to the maximum recovery permissible under the regulations applicable when vehicles are driven, with authority, on official business.

The Department of National Defence Act provides for imprisonment of up to two years "or to less punishment" for the unauthorized use of departmental vehicles; however, there is no regulation that allows any amount to be recovered from a serviceman where a loss to the crown is involved in such cases.

The treasury board recently called the attention of all departments and agencies to a directive that had previously been issued for the purpose of controlling the non-official use of crown-owned vehicles and urged the tightening up of procedures in view of the increasing number of accidents to vehicles being driven by employees while not on duty.

Important as this is, we believe it would serve as a more effective deterrent to the unauthorized use of crown-owned vehicles were more severe penalties assessed against the offenders.

Mr. HENDERSON: This note describes the damages required to be paid to a civilian, to the extent of \$14,500 where a national defence vehicle was being driven without authority. As the note explains the driver of the vehicle was reprimanded and had to reimburse \$250 to the crown, this being the maximum amount recoverable under existing regulations in cases where vehicles are driven without authority on official business. Where vehicles are driven without authority the Department of National Defence Act does provide for imprisonment of up to two years or "to less punishment". However, there is no regulation indicating what is to be recovered from the serviceman when the crown incurs a loss in such cases. In view of what I have said here, we should appreciate having the views of the committee on a matter such as this, because as we see it, it would surely be a more effective deterrent to the unauthorized

use of crown-owned vehicles if more compulsory financial penalties were provided for. In fact it seems to us to be about the only way to stop such a practice.

Mr. WAHN: I would have thought that where a serviceman who is an employee of the Department of National Defence used a vehicle in an unauthorized manner and got involved in an accident in which he presumably was to blame, that otherwise the crown would not be penalized by damages, and that the crown would have a right of action over against that serviceman under the general principle of the law, unless there was something in the National Defence Act which would prevent it. Was the Auditor General informed whether or not the legal opinion had been obtained that the department had no right in regard to this particular serviceman I would have thought it would have had such a right.

Mr. HENDERSON: It is our understanding that the law officers of the Department of National Defence did not feel—and I will be corrected if I am wrong—that the department had that recourse because the National Defence Act itself only seems to provide for imprisonment up to two years or “to less punishment”.

Mr. WAHN: I would be very surprised at that. The mere fact that a penalty of imprisonment is provided should not do away with the ordinary right of any employer to recover from any employee for negligent conduct.

Mr. HENDERSON: I would have thought so.

Mr. WAHN: It would deserve inquiry.

Mr. HENDERSON: We took this up with the treasury board and, as you will notice from the top of page 34, the action they instituted was to call the attention of all departments and agencies to a directive they gave before tightening up on the use of crown-owned vehicles because of the number of accidents that were developing while vehicles were being driven by employees who were not on duty.

Mr. WAHN: My suggestion would be to ascertain from the responsible authorities whether or not, under the law as it stands at present, the crown has a right to recover from such an employee because, if it has, perhaps no further legislative action is required. All that would be required would be effective action to be taken, because the paragraph does not indicate that this usual right has been in any way lost as a result of special legislation.

Mr. HENDERSON: I might mention here—and I should perhaps have mentioned it earlier—that we updated this matter in our 1963 report. It says:

The Department of National Defence considered the matter at length following our drawing the above-mentioned case to its attention. A departmental memorandum in August 1963 reporting on the result of this consideration put forward the view that since payments in respect of claims by third parties are made on an *ex gratia* basis in cases where accidents occur during the unauthorized use of departmental vehicles, regulations for recovery in such cases would not be justified, it being stated that “in view of the extremely limited applications for recovery by the crown it does appear that there would be difficulty in justifying a departure from the common law position that the person who makes an *ex gratia* payment where there is no legal liability on him to do so gains no right of action for recovery from the person whose actions gave rise to the claim”. The position of the Department of National Defence therefore remains that while the National Defence Act provides for disciplinary action in such cases, there is no provision for all or any part of expenditure by the crown to be recovered from servicemen involved, except on a voluntary basis.

Mr. WAHN: This indicates that this is not a payment the department was required to make; it was an *ex gratia* payment made voluntarily without any legal obligation.

Mr. HARKNESS: This has always been a difficult area. When a case of this kind has taken place it has generally been felt that there was a moral obligation on the department to reimburse the civilian who happened to be injured and so forth, although there was no strict legal obligation. It has therefore always been a matter of judgment whether or not, an *ex gratia* payment should be made. If the circumstances have seemed to be hard, an *ex gratia* payment has generally been made.

Mr. HENDERSON: While we are discussing this, Mr. Chairman, we might consider this as disposing also of our 1963 note since that report is coming up.

What I would like to ask the committee is whether they do not agree with our view in the audit office that further consideration should be given to this matter to the end that there may be uniformity in the penalties imposed in like circumstances on all persons using crown-owned vehicles without authority. Should they not be uniform across the board?

The CHAIRMAN: Would this be the case, that where the serviceman takes the vehicle without authority it immediately raises a doubt whether any legal liability falls upon the department by law? Consequently, when they make a settlement it is made *ex gratia*, and this raises a doubt whether under common law principles there is any real right to indemnity, as Mr. Wahn says, against the serviceman. I suppose your suggestion is that the committee should consider making this a statutory requirement.

Mr. HENDERSON: If the committee would recommend the proposition that consideration should be given to the matter so there is uniformity, then our hands will be strengthened towards pursuing it.

On page 39 of the 1963 report you will note that I say that during the year 1962-63 three instances of accidents involving crown-owned vehicles driven by employees of the Department of Transport—and that is another department involved—while not acting within the scope of their duties, came to attention. In each case the treasury board directed that the employee concerned reimburse the crown to the same extent as is provided by the Claims Regulations in a case where an employee is considered as having been on duty at the time of the accident and to have been negligent to other than a minor extent, the result being that there were assessments of one-third in two cases and one-fifth in the third, of the cost to the crown. When giving its ruling in the third case the treasury board agreed to deal with it on the same basis as in the two earlier cases, but it—the treasury board—expressed deep concern in the matter and directed the department that in like cases in the future full recovery is to be made from the employees involved.

That was the experience in 1962-63, and that supports our view, I feel, that consideration should be given to the matter to the end that there may be uniformity in the penalties imposed in like circumstances on all persons using crown-owned vehicles without authority.

The CHAIRMAN: Mr. Rock, and then Mr. Mandziuk.

Mr. ROCK: Mr. Henderson, your concern is not with the person who is injured and who sues the government for his injury but rather with the person who uses the vehicle without authorization?

Mr. HENDERSON: That is right.

Mr. ROCK: This is clear in your report here but some questions have been asked along the lines of whether the government should pay for the injuries or not, and I do not think that should fit into the picture at all.

Mr. HENDERSON: In the case mentioned in my 1962 report the Department of National Defence had to pay out \$14,500 to the woman—

Mr. HARKNESS: They did not have to pay it.

Mr. HENDERSON: —who was struck in England.

Mr. HARKNESS: It was an *ex gratia* payment.

Mr. HENDERSON: That is correct. Of course, the recovery from the man who was responsible was much less than that amount. In the case of the Department of Transport in 1963 the treasury board assessed those employees in a considerable proportion. They based their assessment on the circumstances of the case into which they examined at quite some length.

Mr. Rock: I feel the committee should agree in its recommendations that the people who are unauthorized should pay for the damages. I do not see anyone speaking to the contrary, Mr. Chairman.

Mr. MANDZIUK: While I agree with Mr. Rock that the employee using the vehicle when not in the course of his duties should be made to repay whatever is the cost to the crown to settle the claim, I feel the department should have some discretion, if for no other reason than that in some cases the employee may have no money and the crown would just make the best deal it could with him.

Do you suggest that arrangements should be made for a follow-up procedure in this connection in order to recover the whole amount?

Mr. HENDERSON: I would agree with that because the department, just as in the case of the Department of Transport here, submitted their case to the treasury board and in their joint wisdom they saw fit to make the best deal they could under the circumstances.

Mr. MANDZIUK: You feel that he should be made to pay as much as he can and if you cannot get the whole loaf half a loaf is better than none.

Mr. HENDERSON: That is the very point. I am asking only that you support a consideration of this.

Mr. HARKNESS: Mr. Chairman, my point is along the same line. Whilst theoretically perhaps it is desirable to have the penalties imposed, particularly the financial ones, uniformly, in actual cases it would be impossible because in the case of the Department of National Defence those who generally do this sort of thing are privates with a very small income, to start with, and with no assets whatsoever. They are people who are not too responsible so there is no practical means really of recovering very much from them, particularly in view of the regulations which state that every soldier has to receive a certain amount of his pay no matter what penalties have been imposed upon him or what fines he is subject to and so forth. That is essential in order that you do not end up with a lot of people without any money whatever as a result of impossible situations.

Mr. McMILLAN: I was just wondering if the crown carries any insurance or if they have an insurance fund set up for the operation of crown vehicles?

Mr. HENDERSON: No, they do not carry insurance, Dr. McMillan. But, of course the additional point I made here was that when the \$250 was reimbursed by the driver to the crown in the 1962 case this amount was reimbursed only because the chap who had been guilty of driving this vehicle agreed to reimburse them. That is the way the regulation is written.

Mr. McMILLAN: There must be a number of these incidents occurring all the time. Is that correct?

Mr. HENDERSON: Yes. And, in answer to Mr. Harkness I certainly have a full appreciation of the position of privates driving vehicles without authority but I do think irresponsible types elsewhere in departments are equally culpable.

Mr. HARKNESS: My whole point is that while in theory a uniform regulation in this regard might be desirable, in practice it could not be made uniform.

Mr. HENDERSON: I would leave that to the department and treasury board to work out; so long as the principle can be endorsed by the committee I think they are competent to make the best deal they can in each case.

The CHAIRMAN: Did you have a question, Mr. Rock?

Mr. ROCK: No, Mr. Chairman. I was going to mention something along the lines of Mr. Harkness' point, namely, the difference between national defence and the other departments. The fact this exists in the Department of National Defence, where we have a lot of people, such as privates, some of whom are not responsible people, does not mean we actually have the same in every other department.

Mr. HARKNESS: It is not a matter of not being responsible; it is a matter of them having a small income and no assets.

Mr. ROCK: So, we are using different words. We could say financial responsibilities.

Mr. FORBES: Mr. Chairman, I always understood that army personnel were under very strict discipline and I would imagine that anyone who took a vehicle unauthorized would be severely reprimanded or perhaps made to pay for any damages that were created as a result of his using a vehicle. I am somewhat of a loss to understand how someone could get away in a situation such as this.

Mr. CAMERON (Nanaimo-Cowichan-The Islands): Mr. Chairman, I gather that Mr. Henderson's point is not so much the hope of recovering whatever damage the crown has to pay but so that it would act as a uniform deterrent.

Mr. HENDERSON: That is exactly right.

Mr. WAHN: As I understand it, from what Mr. Henderson has said, if a serviceman gets involved in an accident when he is on official business and if there has been negligence, then he is obliged to repay the crown a certain amount under the claims regulations, but this is not so when he takes a vehicle without any authorization at all. I gather what Mr. Henderson is recommending is that at the very least he should be under the same obligation when he takes a vehicle without authorization as he is under when he takes a vehicle on official duties. I think this is certainly very reasonable.

The only other question I have is this. Under what authority are these *ex gratia* payments made? I agree that in some cases, even though the crown may not be under any legal liability, it is proper an *ex gratia* payment should be made. But, under what authority is it made?

Mr. HENDERSON: Well, the crown is making a number of *ex gratia* payments all the time. The treasury board are passing them in respect of situations of this type.

Mr. WAHN: But under what authority or what head in the estimates?

Mr. HARKNESS: Under the authority of a treasury board minute.

Mr. HENDERSON: Yes, that is correct, in every case after a full examination into the circumstances and an exhaustive examination, as in the case of the three accidents which occurred to the Department of Transport vehicles which were being driven without authority.

My point is expressed in the last paragraph in my 1963 report. I was hoping that you might support me when I ask that further consideration should be given to this matter with a view to there being uniformity in the penalties imposed in like circumstances on all persons using crown owned vehicles without authority because this matter has been cropping up for some years now. In fact, I think I recall several similar cases quite some years ago when we

had the subject before this committee. It would be very helpful to have you support this proposition in order to see what further results we might be able to achieve toward this uniformity.

The CHAIRMAN: Are there any further questions on this subject.

I wonder if before we consider this further it would be possible to have a minute in respect of the claims regulations and the application of them, and how they might differ. Are these claims regulations very voluminous?

Mr. HENDERSON: Can you speak to that, Mr. Millar? Are the claims regulations very voluminous and would it be possible to distribute copies of them for study of members of this committee?

The CHAIRMAN: It would be helpful to have at least a minute presented to the committee describing the effect or synopsising it.

Mr. HENDERSON: I think you were speaking of the Department of National Defence ones as distinct from the Department of Transport.

Mr. D. A. SMITH (*Audit Director, Auditor General's Office*): There are what is known as the claims regulations, which relate to government departments generally; these are not too voluminous and we could have these prepared for presentation to members of the committee.

The CHAIRMAN: I think this would be very helpful when we are making our decisions in this matter. I think it would help us to have these so that we will know how they relate to the Department of National Defence and how they correspond to the other departments. Is that not correct?

Mr. HENDERSON: Yes. In order that I may have this right, do you also want the claims regulations of the Department of National Defence as well as those relating to claims generally?

The CHAIRMAN: Yes, both.

Mr. HENDERSON: If we furnished these to the clerk they could be appended to the minutes of the next meeting.

The CHAIRMAN: That would be fine. Gentlemen, may we now proceed to the next paragraph, which reads:

83. *Indirect contribution towards provincial taxes.* In last year's report (paragraph 73) attention was drawn to an anomaly in the operation of the Hospital Insurance and Diagnostic Services Act in that the federal government, in effect, contributes towards provincial taxes, there being no provision in the Hospital Insurance and Diagnostic Services Act or regulations for the exclusion of these taxes from hospital operating costs shareable under the hospital insurance scheme and claimed by the provinces.

There has been no change in the situation during the past year and our observation therefore still applies. No estimate is available of the amount of provincial tax payments which the federal government may have shared in this manner. This anomaly also exists to some extent in the operation of the Unemployment Assistance Act, 1956, c.26.

Mr. HENDERSON: Paragraph 83 of my 1962 report describes how the federal government, in effect, contributes toward provincial taxes because there is no provision in the Hospital Insurance and diagnostic Services Act or regulations providing for the exclusion of such taxes from hospital operating expenses which are shared under the hospital insurance scheme and claimed by the province. I might say, of course, that this problem is related to the whole field of federal-provincial fiscal arrangements. You might feel it desirable to divert consideration of this question at this time. But, it was a matter I felt should be brought to your attention.

Mr. McMILLAN: To what provincial taxes do you refer? Are you referring mainly to the provincial sales tax?

Mr. HENDERSON: Yes, that is correct, Dr. McMillan.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will proceed to paragraph 84, which is as follows:

84. *Unemployment Assistance.* In paragraph 74 of last year's report the Audit Office opinion was restated that the Unemployment Assistance Act, administered by the Department of National Health and Welfare, includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration. Our examinations during the year under review have served to confirm this opinion. It is understood, however, that possible changes in the legislation and the use of regulations are currently under study by the department.

OVERPAYMENTS TO CERTAIN PROVINCES.—Of the several overpayments reported last year, the amount owed by the Province of Nova Scotia was determined to be \$52,000 and final adjustment was made during the year. Also recovered was the remaining \$45,000 owed by British Columbia.

In Quebec the final adjustment in respect of discrepancies referred to in last year's report and which related to the period from July 1, 1958 to September 30, 1959, is still under consideration; meanwhile, \$731,000 has been recovered. Overpayments for the period October 1, 1959 to March 31, 1960 are estimated at \$338,000. The bulk of the overpayments was caused by confusion in interpreting the sections of the Act and Agreement dealing with homes for special care, either the homes or the inmates not being eligible for a variety of reasons.

A preliminary review of the claims from the Province of Quebec for the period April 1, 1960 to December 31, 1961 indicates that there has been a substantial overpayment, \$127,000 of which was recovered in October 1962. In addition to actual disbursements, the province included in monthly claims amounts to cover assistance provided by homes for special care and welfare agencies not yet included by these bodies in their claims to the province. This practice appears to circumvent the provisions of section 13 (a) of the agreement under which reimbursement claims from the province are disqualified if made later than six months following the last day of the month to which they relate. Also, under this procedure it would not be possible to comply with section 5 of the agreement which requires each claim to indicate the total number of persons assisted during the month to which the claim relates and the total amounts paid on behalf of such persons.

The arrangement noted last year whereby the audit services division of the office of the comptroller of the treasury has been assisting the provincial auditor of Quebec continues. The practice followed in other provinces whereby the provincial auditors' examinations of claims and certifications in accordance with the agreements precede separate examinations made on behalf of the federal government will, we understand, be implemented once the joint audit has been completed to December 31, 1961.

HOMES FOR SPECIAL CARE.—With regard to the cost of maintaining needy persons in provincial or municipal homes for special care, there continues to be a wide variation from province to province in the elements of cost entering into the calculation of monthly accommodation rates. Also, it has been difficult to determine and apply the limitation on accommodation rates for homes for special care imposed by section 7(a) (iv) of the agreement; that is, payments claimed are not to exceed what

an individual might reasonably be expected to pay for accommodation of a comparable kind and quality in the same location. For example, in Quebec considerable confusion has arisen because, under the province's distinctive financial arrangements with homes for special care, it is extremely difficult to determine what a person might reasonably be expected to pay. With respect to provincial or municipal homes falling into the category of homes for special care, this limitation is usually replaced by the inmate-day-cost basis. In one Prince Edward Island institution a monthly rate calculated on this basis and shared by Canada was \$118; yet until January 1, 1962 when it was raised to \$120, the monthly board rate for this institution approved by provincial order in council was \$90. The rate shareable by Canada is open to question as it could be contended that the amount a person might reasonably be expected to pay pursuant to section 7(a) (iv) of the agreement, and therefore shareable by Canada, is the approved board rate.

Another provision of the act and agreement relating to homes for special care is that unemployment assistance costs may not include payments to or on behalf of inmates of homes for special care who would normally be cared for in certain institutions, and among those listed are chronic hospitals, mental institutions and institutions for incurables. No satisfactory criteria have yet been developed to distinguish clearly between patients who would normally be cared for in such institutions on the one hand, and in homes for special care on the other. Indeed in the administration of this Act it appears doubtful that the term "institutions for incurables" has any precise meaning, and it is not defined.

WORK FOR RELIEF.—In last year's report reference was made to claims by some Ontario municipalities where recipients had been required to work in return for assistance given them. The department concurred in our opinion that such assistance was not shareable under the agreement and during 1962 recovered \$32,300 from the province in respect of this assistance. However, after discussions with the province, the department believes that the practice is not widespread and has decided that attempts to determine its extent in some 900 other municipalities throughout the province would not be practicable in view of the expense and inconvenience the province feels would be involved.

SUPPLEMENTAL ALLOWANCES.—In last year's report (paragraph 74) we commented that the department had agreed that supplemental allowances normally excluded under section 4(2) of the act could be regarded as additional relief payments in accordance with section 4(3) (b) of the act and section 8 of the agreement when they are based on an individual budgetary assessment of need in which basic expenditures as well as income are considered. We also expressed doubt about the way in which the assessments had been made in British Columbia. Our doubts were confirmed by our review of the accounts for the period from September 1, 1960 to July 31, 1961 and by the findings of the audit services division of the office of the comptroller of the treasury. Their interim report disclosed overpayments estimated at \$111,400 which were recovered during the year.

In addition, we noted two different scales of maximum basic assistance being applied, the more generous one being for those eligible for supplemental allowances. Although need may vary to some extent from person to person or from region to region, it would seem that a person's needs should not be considered automatically to increase after eligibility for supplemental allowance has been established. Also, if these allowances are permitted to be claimed as unemployment assistance, the pro-

priety of maintaining the three year residence requirement for former residents of other provinces is open to question, because section 4 of the unemployment assistance agreement specifically excludes length of residence as a condition for receipt of assistance by these applicants. It would seem that uniform standards of assistance should be applied if supplemental allowances are to be considered shareable under the Unemployment Assistance Act.

MOTHERS' ALLOWANCES.—The Unemployment Assistance Act provides for the exclusion of recipients of mothers' allowances, a provincial scheme to assist mothers whose families have been deprived of the wage earner. As it was envisaged that such cases would be shifted from the mothers' allowance program to general welfare and claimed under unemployment assistance, as indeed has happened, provision was made in the agreement for an amount to be deducted from the provinces unemployment assistance claims to compensate the federal government for sharing in the cost of what was provided formerly through the provincial mothers' allowance program. However, there is a time lag built into the formula for calculating the deduction which results in the sharing of the equivalent of full costs of the mothers' allowances for a year before the deduction becomes fully effective. While the financial consequences may be insignificant if a few mothers' allowance cases are included in the general social assistance caseload, what may not have been contemplated was the effect that would be produced were the entire mother's allowance caseload merged with the general social assistance caseload within a short period, as has occurred in some provinces. If the remaining provinces follow this pattern, unemployment assistance costs will increase very substantially in the year or so before the deduction becomes fully effective.

It has also been observed that in some instances the merger of the two caseloads is artificial in that the mothers' allowance type of case is preserved within the framework of general social assistance and sometimes singled out for special treatment. It is doubtful if this was intended by the legislation.

STRENGTHENING ADMINISTRATIVE CONTROL.—Ambiguities in the act and resulting varying interpretations at the federal, provincial and municipal levels make the department's administration of the unemployment assistance program unnecessarily difficult. Following consultation with officials of the department, we have suggested that the act could be more effectively administered were the department to assemble its own internal audit group to take responsibility for the verification of unemployment assistance costs claimed by the provinces. Such a group, experienced not only in auditing techniques but in the special requirements of this legislation, should be able to provide the day to day liaison with the provincial and municipal governments that the department requires to anticipate and prevent, or resolve, difficulties in administering the program so that substantial overpayments do not arise. This suggestion is in line with the general proposal advanced in paragraph 18 of this report regarding greater use of internal auditing staffs by departments.

Mr. HENDERSON: This paragraph in respect of unemployment assistance, as members may recall, was the subject of extensive discussion by the committee in its meeting on December 9 last, at which time Dr. Willard, the deputy minister of welfare, appeared as a witness. I referred to this when we were considering the follow-up report, so perhaps you might wish to pass it over at this time.

The CHAIRMAN: The matter is still under consideration at the federal-provincial level.

Mr. HENDERSON: Yes.

The CHAIRMAN: Paragraph 85 is next;

85. *Hospital construction grants.* Grants to each province and territory are provided by an annual parliamentary appropriation and are subject to the terms and conditions set out in the estimates details and in the health grants rules approved by the governor in council. The grants thus provided consist of the annual allocations, plus additional funds to cover the cost of completing projects begun in prior years but which has not been completed as planned.

Proposals for individual hospital construction projects are submitted by the provinces and, following approval by the Minister of National Health and Welfare, the relative grants are payable in four instalments as construction progresses.

Vote 260, as supplemented, provided \$19 million for the fiscal year 1961-62, the text also including ". . . authority, notwithstanding section 30 of the Financial Administration Act, to make commitments for the current year not to exceed a total amount of \$29,660,152". However, it is inherent in this program that commitments be entered into not only for the current fiscal year but also for future years, to the extent that hospital construction plans require. It therefore follows that if there is to be effective parliamentary control a limit should be imposed on commitments that may be entered into for future years as well as the current fiscal year. Actually, at March 31, 1962 such commitments outstanding amounted to approximately \$40 million.

Although an annual appropriation is intended to provide sufficient funds to discharge all commitments coming in course of payment during the year, it was noted that at the year-end, after the appropriation had been fully expended, unpaid claims for approved grants in respect of completed construction work were outstanding to a total of \$6,000,000. Of this amount, \$4,000,000 due the province of Quebec could not have been paid even if sufficient funds had been available in the appropriation because the allocation to this province for the 1961-62 fiscal year had already been fully expended. This situation was the outcome of the practice of approving projects involving instalment payments in excess of the federal government's annual allocation of the grant.

Mr. HENDERSON: This paragraph refers to hospital construction grants. The point made here is that this entire program is one based on a five year period of planning for the purpose of better administration and more effective parliamentary control. It has seemed to me the commitment limits should be for the full five year period rather than attempting to keep it on an annual basis. We in the audit office would like to see the figure for the five year period spelled out clearly in the vote wording. I might say that the Glasseco commission dealt with this particular point also in their recent reports and their recommendation was that the present reporting and accounting requirements for health grants be reviewed and simplified and consideration be given to placing health grants programs on a period of years basis.

It would be of assistance to us if we could have the views of the members of the committee on this subject.

The CHAIRMAN: Are there any questions on this paragraph? If not, might we pass on to paragraph 86, which reads:

86. *Irregular employment of doctors and dentists—Indian and Northern Health Services.* For some years the civil service commission,

on behalf of the medical services directorate of the Department of National Health and Welfare, has been unable to recruit sufficient numbers of doctors and dentists to completely staff the Indian and northern health services' hospitals and smaller establishments, which provide medical care to Indians and Eskimos. To fill the gap, unlicensed practitioners, frequently new Canadians, have been used by the department on the understanding that they would seek to become licensed as soon as possible. Not being licensed to practice, these persons do not qualify for the positions of "medical officer" and "dental officer" and the civil service commission will not appoint them to fill vacant positions in the department's establishment. Accordingly the department pays these unlicensed practitioners for their services on a fee basis at regular monthly rates, the payments being charged as "professional and special services". Although not having the legal status of employees, they are treated as such.

Attention was drawn to the need for corrective action in the 1956 report (paragraph 75). However, a review in 1960 revealed that the department was still employing twelve unlicensed practitioners in the manner described above. In June 1961 the Department, the civil service commission and the treasury board agreed that professionally qualified doctors and dentists who were not yet licensed but whom the department desired to employ would be certified as technical officers by the commission on the understanding that they would attain licensed status within a reasonable time and would be subject to replacement by fully licensed medical officers whenever these were available. This solution was never put into operation, and we observed that the services of six doctors and seven dentists, none of whom was appointed by the civil service commission, were used and paid for on a monthly stipend basis as a charge to "professional and special services" during the year under review.

Mr. HENDERSON: I might say we referred to this matter also in paragraph 72 on page 45 of my 1963 report and perhaps we could have a word about it again at that time when it will come forward.

The CHAIRMAN: Is that paragraph 85?

Mr. HENDERSON: Paragraph 85 in the 1962 report and paragraph 73 in the 1963 report. It will come up again.

Paragraph 86 has to do with the irregular employment of doctors and dentists in Indian and northern health services.

Under this note we draw to attention the fact that the Department of National Health and Welfare continues to employ unlicensed practitioners. In fact, it has been doing so ever since 1956 when we first drew this matter to your attention.

Now, while this continues to be the case, as the note describes, the fact remains that the need of the services of practitioners, unlicensed or not, is urgent, and the problem is being met, although not in the orthodox manner.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Are these unlicensed persons people who have medical qualifications from other countries and are unable to be licensed by the appropriate medical association here?

Mr. HENDERSON: That is my understanding.

Under note 86 I explain that to fill the gap unlicensed practitioners, frequently new Canadians, have been used by the department on the understanding they would seek to become licensed and, by that, I presume is meant the provincial authority.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): It does not imply that they necessarily are unqualified.

Mr. HENDERSON: No sir, I think not.

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): No, it does not. They are qualified in other countries.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): But they are not legally licensed in this country?

Mr. DOUGLAS: No.

Mr. TARDIF: Well, so long as they are trained personnel and qualified in another country I do not see any great harm in that, especially if they are merely putting in the time so that they can be qualified in Canada.

Mr. HENDERSON: There is no doubt about that. But, this is the type of situation we have to bring to your attention because it is not in accordance with the requirements of legislation. But, I presumed you might not regard it as an overly serious point.

Mr. TARDIF: I do not imagine there are any cases where someone is untrained or unqualified and is serving in that capacity. I presume they are all holding diplomas from some university.

Mr. HENDERSON: Also they are required to be appointed by the civil service commission. But, they are not so appointed because the civil service commission is obliged to appoint only licensed persons. Is that not correct?

Mr. DOUGLAS: Yes, and, accordingly, these people are not employed by the commission.

Mr. PILON: Could you give us some idea of how many of these are qualified to practice?

Mr. HENDERSON: Can you speak to that, Mr. Douglas?

Mr. DOUGLAS: Yes. Of the 11 that we speak of in this note all of them have either left or now have qualified. This is ceasing to be the problem it was when this note was introduced.

The CHAIRMAN: Are there any other questions on this point? If not, let us proceed to paragraph 87:

87. *Health grants.* Vote 259 authorizes general health grants to the provinces "upon the terms and in the amounts detailed in the estimates and under terms and conditions approved by the governor in council", and the estimates details provide for "general public health grant to assist in extending and improving health services". Section 10 of the health grants rules, 1961, approved by the governor in council, dealing with this grant further provides that "from time to time a province may, as part of a satisfactory plan or program for the strengthening of health services, both provincial and local within such province, including the training of personnel and the conduct of surveys and studies, submit to the minister a project together with a budget therefor".

Lack of precise definition of the terms "general public health" and "health services" has created a problem in the audit of payments charged to the general public health grant. The Department of National Health and Welfare has placed a broad interpretation on these terms and feels that "there are few restrictions in the scope of a program intended to provide assistance to the provinces to deal with the health of the people of Canada". In accordance with this attitude, the department has in recent years approved a number of projects whose purpose is the assistance of research programs at universities through the provision of scientific and technical equipment and furnishings. These research programs may result in advances in the general body of medical knowledge and thus assist in ultimately improving the health of the population generally or of individuals afflicted with specific illnesses, but there is

some doubt that they constitute an extension or improvement of provincial or local health services. The following "projects" will serve to point up the problem:

Project 609-9-112—Research equipment and fittings for the medical science buildings, University of British Columbia: During 1960-61 a total of \$104,862 was authorized and spent on research equipment and fittings for the medical science buildings at the university and an additional \$41,866 was expended during 1961-62 for the same purpose. The equipment and fittings purchased with general public health grant funds are used in research projects financed by the university and other interested bodies but were not procured specifically to carry out general health grants projects.

Project 605-9-213—Electron microscopes for the University of Toronto. Two electron microscopes were purchased and installed in the Banting and Best institutes, one in 1959-60 at a cost of \$28,785 and the other in 1961-62 for \$31,979. These microscopes are available to research staffs of the faculty of medicine housed in the two institutes and used only to a limited extent in connection with specific general health grants projects undertaken at the university.

Attention is drawn to the matter because parliament may not have intended the general public health grant to have been given such wide application.

Mr. HENDERSON: Paragraph 87 on health grants shows you the type of projects which are being carried out under the general health grants authorized for this purpose. There are two examples given on page 39 and you will see how far afield the concept of these health grant projects has gone. We would appreciate the opinion of members of the committee on this point because this is typical of questions with which we are often faced. Did parliament intend that general public health grants should have been given such a wide application? You will see the type of projects which are being approved by parliament. The placement of equipment and so on in universities raises quite an interesting point.

The CHAIRMAN: Are there any questions on this paragraph?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): I take it that the Auditor General is questioning the propriety of these grants.

Mr. HENDERSON: Well, sir, as I have explained in note 87, it is the lack of a precise definition of terms employed by the governor in council. The general public health, and the health services are left open, and the problem arises about the payments charged to general public health grants. The Department of Health and Welfare has placed a broad interpretation on these terms, and it feels that there are a few restrictions in the scope and program indicated to provide assistance to the provinces, and to deal with the health of the people of Canada. In accordance with this attitude, the department has in recent years approved a number of projects whose purpose is the assistance of research programs at universities through the provision of scientific and technical equipment and furnishings. These research programs may result in advances in the general body of medical knowledge and thus assist in ultimately improving the health of the population generally or of individuals afflicted with specific illness, but there is some doubt that they constitute an extension or improvement of provincial or local health services.

I cited two projects in order to show you what is being charged up to these votes. I have to be governed by section 10 of the health grant rules, 1961, as approved by the governor in council, which does not appear to me to be as

wide in range as the type of thing they are putting in. On the other hand, parliament may feel—and I think an expression of opinion from this committee would be of inestimable help to us—that it is placing a pretty broad interpretation on this, when it comes to putting equipment of this nature into hospitals.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): These two projects which you cite here are quite definitely limited to the provision and training of personnel and they are attached to faculties of medicine at universities, and surely personnel must include medical personnel.

Mr. HENDERSON: I would like to ask Mr. Douglas who has made a study of this vote, to answer your questions.

The CHAIRMAN: I wonder if you would mind standing up, Mr. Douglas. I have been informed that there is difficulty in your voice carrying to the microphones. If you stood up it would be a little better.

Mr. ROCK: We have no difficulty down here.

The CHAIRMAN: No, I was not referring to you, I was referring to the microphone system.

Mr. DOUGLAS: The point here is that there are a number of grants under health grant rules which are tied into parliamentary appropriations. There is, for example a public health research grant, and there is a general health grant, and the difficulty is that normally the general health grant has been used actually to improve provincial and municipal health services. For example, there is assistance in municipal health units, assistance to public health laboratories, and there is the training of personnel. Then there are grants charged to this in connection with mobile dental clinics, assistance in training sanitary inspectors, and so on, which are normally left out of public health. In this instance we have a case where equipment is simply given to a university with no strings attached, and the question is how broad or how narrow is the interpretation of general public health to be?

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You say it has been given with no strings attached. Actually there is an implied string, that it is a specific project for the faculty of medicine at the respective university which is concerned with the training of medical personnel.

Mr. DOUGLAS: Yes, in that broad sense, yes; but the point is it is not specifically related to provincial and municipal health services. It is in a very broad sense true general public health, quite possibly.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You realize that there must be adequately trained personnel for the health services.

Mr. DOUGLAS: Yes, quite.

Mr. HARKNESS: It is given to these universities to provide scientific equipment under certain items.

Mr. HENDERSON: That is an excellent way to put it. That has been our feeling. Your discussion I think is of considerable help to us.

Mr. HARKNESS: It would seem to me to be parallel to a case where the Department of Transport might use money voted to improve canals to build docks.

Mr. HENDERSON: I suppose so.

Mr. WAHN: It seems to me that probally more flexibility is not only desirable but absolutely necessary. Certainly it strikes me that these two examples given are very useful ones.

Mr. HENDERSON: We are not questioning them at all.

Mr. WAHN: It is my understanding that insufficient funds have been provided in Canada for medical research, and that Canada has been dependant on grants from the United States and other countries. Certainly I would have

thought that if there is to be more research in medicine, then equipment is of course essential for that purpose, and that this perhaps would be the most beneficial way in which the money could be spent to improve general public health. Flexibility is needed because parliament cannot be expected at the time it approves the estimates to determine the best possible manner to extend these funds. I think a reasonable discretion has to be given to those responsible. It is important of course that the money should be spent on worthwhile projects.

Mr. HENDERSON: We are not questioning the projects as such. It is because of the difficulty we encounter in our work in interpreting parliament's intentions.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): How about equipment for treatment purposes such as the X-ray bomb and so on. Do they come under this?

Mr. HENDERSON: I think Mr. Douglas who has just been speaking about it should answer. Dr. McMillan raises the question about the X-ray bomb and things like that to provide hospitals under this vote.

Mr. DOUGLAS: I think that would come under general public health grants, and under the particular grant we are speaking of.

Mr. ROCK: Could the gentleman who just spoke give us an idea of what type of grant the government usually gives to universities and to help hospitals when they are constructed, and to provide beds? What procedure does the government take to grant these amounts of money for such equipment in the hospitals? Personally I think it is more or less a backdoor sort of thing. I think Mr. Henderson is to be commended for the fact that he has found how this should be done. I think it is irregular too, in the sense that it evidently is not aid at all in the over-all health program of the area in treatment and all that. It is for training in universities, for which possibly grants should have been given from other sources.

Mr. DOUGLAS: Normally assistance to hospitals is given through the hospital construction grant, where I believe it is to be the lesser of two, that is, \$2,000 per bed or bed equivalent, and \$750 for a bed for living quarters, or one third of the cost, whichever is the less. This is the general principle under which the federal government gives assistance.

Mr. ROCK: What about the universities? Are they not given grants by the federal government?

Mr. DOUGLAS: The hospital grant would not cover universities.

Mr. ROCK: I am thinking of grants given when there is an extension to a university? I believe that sometimes the federal government gives a grant, and the provincial government allows it.

Mr. DOUGLAS: I am not sure, but I do not believe there is any direct assistance given from the federal government. I believe it would come through the provincial government, but I am not certain of the details.

Mr. TARDIF: The same thing applies to the payment of grants by the federal government. It is only given when matched by the province.

Mr. ROCK: I have just found the backdoor.

Mr. TARDIF: Is the grant given by the federal government as a per bed grant and given only when it is matched by the province?

Mr. DOUGLAS: That is one of the conditions, yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Is there an appropriate item under which the federal government could make grants for these things which are directed specifically to medical training.

Mr. DOUGLAS: I am not sure about that, but I would say there are some. For example, in the medical research council which, is an autonomous body

within the program of the national research council, money is granted to scientists to purchase major items of research equipment and facilities for training research workers and so on. That is one source that I know of.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): That is a very broad general category. It is not specifically related to public health or to the development of health services, or medical services.

Mr. DOUGLAS: No, it is not specific.

Mr. SOUTHAM: I think the problem here concerning the Auditor General is well stated in the second paragraph which reads as follows:

Lack of precise definition of the terms "general public health" and "health services" has created a problem in the audit of payments charged to the general public health grant.

Now, with reference to the comments made by Mr. Rock, I think it is possible that these grants are beneficial and should be considered. I am referring now to the two citations here, the two examples. I know, for example, that at the university hospital at Saskatoon, which is a university centre, they have a school of nursing where they train a lot of nurses, and they go out into the province to help with the health programs carried on in that province. I feel that if we could come to some agreement to help Mr. Henderson to determine the question more specifically under this particular vote, and to clarify the definition of public health service, it might help to solve his problem. I can see how he is a little concerned, because it is certainly somewhat of a fringe area. I would go along with it.

Mr. HENDERSON: The opinions thus far in this discussion are most helpful to us. It is my general impression that your consensus of view is that it is in accordance with parliament's intention. You have a case here where they have left the carrying out of it to the department of Health and Welfare to interpret in their administration, but we are not criticizing their administration sir.

Mr. SOUTHAM: Mr. Chairman, if this definition could be redefined in a little broader scope it would be very helpful, I think, to Mr. Henderson.

Mr. HENDERSON: Possibly a few more details would be helpful with regard to the intentions in the details of the estimates.

Mr. GRAY: Mr. Chairman, if the vote permits the grants to be made on the terms and in the amounts detailed in the estimates and the terms and conditions approved by the governor in council—and the governor in council has used very broad phrasing—I ask with the utmost respect that the Auditor General should try to find a clear definition of these terms.

Mr. HENDERSON: I think it is because we are concerned at all times, and must be, with what parliament intended.

Mr. GRAY: You are not suggesting that at the conclusion of certain studies dealing with specific health grants and projects, for example, if the equipment is not completely used up or amortized in some way there is something wrong with having it provided in the first place?

Mr. HENDERSON: No, sir, that is not our point.

Mr. HARKNESS: Your point really is the control of parliament over expenditures.

Mr. HENDERSON: Exactly, and discussions such as this are of great help to us in studying these matters, as we do year after year.

The CHAIRMAN: Are there any further questions?

Mr. HARKNESS: It would seem to me that the desirability of medical research should not be injected here as, we will say, an excuse for money which has been voted for some other purpose being used for that particular purpose. I would agree with Mr. Henderson that there should be a more precise definition of what is meant by public health grants in this case.

Mr. HENDERSON: If I might just answer that, Mr. Chairman, would Mr. Harkness not perhaps subscribe to the proposition that the vote text might usefully be enlarged in this instance to make it abundantly clear? If the members would subscribe to that it would be a very useful recommendation for us to have.

Mr. HARKNESS: In other words, if the purposes of this grant were put down in more precise terms, as I said, then your difficulty would disappear?

Mr. HENDERSON: Exactly. Thank you very much for this discussion, gentlemen.

The CHAIRMAN: May we pass to item 88.

88. *Doubtful title to property in Newfoundland.* In paragraph 76 of last year's report reference was made to three crown-owned residences in Newfoundland which were taken over by the provincial government when they were vacated temporarily by customs and excise officers in January 1957 and October 1958. As previously mentioned, the Department of National Revenue was of the opinion that these residences were the property of Canada in accordance with sections 33 and 34 of the terms of union, but the province did not agree. The houses are still occupied by provincial officers.

Mr. HENDERSON: If I might be permitted, I should like to ask Mr. Long to speak to the next two or three items because of his close familiarity with the circumstances, beginning with paragraph 88 which deals with doubtful title to property.

Mr. LONG: This paragraph refers to three houses out of a group of four in Newfoundland that were used for customs officials at the time of confederation.

A question has arisen as to the ownership of these houses, and it seems reasonable that this question should be settled in accordance with sections 33 and 34. If the houses are to be kept by Newfoundland, perhaps there should be some settlement made with respect to the expenditures which Canada has incurred during a brief period in which Canadian officials occupied them.

The ownership of these houses is not agreed at the present time. In 1963, when the treasury board was having rental rates set for houses, these were included and rental rates were set for them. In fact, they are being occupied by employees of the government of Newfoundland and, of course, no revenue is coming to the crown. It may be that the Department of National Revenue would like to make some comment on that.

The CHAIRMAN: Are there any questions on this particular paragraph, gentlemen?

Mr. MANDZIUK: Is the situation still the same?

Mr. LONG: It is still the same. This note refers to three houses of four. The fourth house in the group is occupied by an employee of Canada and these three houses are occupied by or are in the possession of the province of Newfoundland.

Mr. HARKNESS: Is this not a case, actually, in which the matter can only be settled by agreement between Canada and Newfoundland? Some arrangement should be made. In other words, this is a very small illustration of exactly what happened so far as the United States military base in Newfoundland was concerned, which was claimed by both Canada and Newfoundland. The dispute went on for years. Eventually a deal was made and it was divided. This is a very small example of the same problem.

Mr. LONG: Yes.

The CHAIRMAN: Mr. Ryan.

Mr. RYAN: I was going to ask why the title was doubtful, but I think Mr. Harkness's question has cleared it up.

Mr. LONG: Under the terms of union it would appear that the houses should have belonged to Canada. This was the interpretation of the Department of National Revenue. The view was held to the extent that at one time they did evict an employee of the province of Newfoundland but, subsequently, when the houses became vacant, Newfoundland took possession. Mr. Harkness's suggestion is certainly one that should be carried out. We have not been able to make any progress in this.

Mr. TARDIF: Was there any evaluation made of these properties, Mr. Chairman?

Mr. LONG: I do not think this has been a factor. Under the terms of union the ownership was determined by the use to which buildings were being put at the time of union. If they were being used by personnel occupied with services taken over by Canada, they were to go to Canada. If the services were retained by the province, then the houses were to stay with the province.

Mr. TARDIF: I think Mr. Harkness is right, and this should not appear again; it is not such a large item.

The CHAIRMAN: Are there any further questions on this, gentlemen?

Mr. ROCK: I do not know in which manner we are proceeding, Mr. Chairman, and it may be that I missed a meeting. We appear to be considering the report item by item, and I notice that after the members of the committee have spoken or have asked questions we proceed to other items. Do you not think we should more or less come to some agreement immediately on the recommendations of the Auditor General and then, instead of coming back to these matters again, make a general report? Do you think in this case, for instance, we should state what we immediately recommend at this moment rather than coming back to these items and wasting all that time?

The CHAIRMAN: This is a matter for the committee. Many of these matters are carried on in the 1963 report of the Auditor General. A large number are also reflected in the follow-up report.

Mr. ROCK: Then, with the 1963 report, how are we to proceed? Are we to make a recommendation immediately or agree with the recommendation of the Auditor General as soon as it is discussed and finished with?

I am just trying to find a short cut in order to save time, Mr. Chairman.

The CHAIRMAN: May we hear from you, Mr. Henderson?

Mr. HENDERSON: My impression has been, Mr. Rock, that as we go along the members have been making some very useful suggestions, such as those resulting from our discussion on the health grants. In this particular case I rather felt that both Mr. Harkness and Mr. Tardif summed up this problem by stating it was a small matter; but small or not they have expressed the hope that it would be speedily resolved. Perhaps, as a result of this discussion in the committee that will be the case. We will be watching it, and I certainly hope the department will be able to resolve it very shortly.

Mr. TARDIF: In many of these items we do not have the power to finalize, in any event. We only have power to make the recommendation, and the authorities will finalize it eventually.

Mr. ROCK: I think the committee itself should, somewhere along the line, make a direct decision. In other words, we should recommend this or that, or just not recommend anything on certain items.

Mr. WINCH: Our procedure over the years, I think, has worked out very effectively. There has been consideration of each item and a notation made through our transcripts of the views of the members. However, a decision

now has to be by way of recommendation and report. After we have gone through the report—according to our past procedure—Mr. Henderson, the Chairman and the steering committee will make a study of all the transcripts and, from the expression of opinion, they will draft a report so that all the ideas and recommendations can go forward to the House of Commons and, through the House of Commons, to the various departments, expressing the thinking of the committee.

As soon as that is done by the steering committee, then it is brought back to a general committee. At that stage there can be agreement or non-agreement or perhaps a certain member may think something has been left out during the work done by the steering committee, and then he may bring it up.

That has been the procedure over the years and I think it has worked very efficiently.

Mr. Rock: I think there should be a consensus of opinion at the time the item is discussed. Some people ask questions in one way and then they do not feel the same when they have heard the answer, so I believe that as soon as the item is finished with there should be some sort of consensus; and a decision should be taken at that moment so the steering committee can embody the decision in the report.

The CHAIRMAN: Generally, Mr. Rock, we do take the consensus as it goes along. If matters are controversial, I think the usual practice—although it is not sanctified in any way—is for final committee deliberations to be held in camera, at which meetings these are discussed and a resolve is made.

May I also point out that in some of these cases, while we may be passing through them rapidly now—and I think Mr. Winch and other members will agree that this has been the practice followed in the past—we will call departmental officials or give them an opportunity to be heard so we may hear both sides before a final decision is made.

In an item such as this, on which there is a fairly clear indication of the committee's view, this would not be a problem and it would come in the final report.

If we were—and I say this with some diffidence—to pause and take a vote on each item we would in some cases be premature by not giving an opportunity to the members to hear evidence on other aspects of the matter, and we would not be following the usual committee procedure, which is to hold our deliberations in camera.

However, this is something which the steering committee can discuss when it next meets.

Is there any further discussion on this item, gentlemen?

Paragraph 89 follows:

89. *Release of goods under Customs Collector's permission.* Subsection (1) of section 22 of the Customs Act, R.S., c.58, reads as follows:

Unless the goods are to be warehoused in the manner by this Act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unlading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer.

In addition, section 79 of the act reads:

No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way,

unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods.

Notwithstanding these statutory directions, it has been the practice of the department for many years to release perishable goods prior to the passing of a customs entry and payment of duty, providing the importer has posted a bond or security as a guarantee of payment of duty. The term "perishable goods" has gradually been extended and now includes a wide range of goods.

There seems little doubt that the practice being followed facilitates the clearing of goods through customs, and benefits both the department and the importer. However, sections 22 and 79 of the act quoted above appear specifically to prohibit what is being done and the act should be amended if the practice is to be continued.

Mr. LONG: Paragraph 89 refers to the release of goods under customs collectors' permission. The situation described in this paragraph is designed to show that although the practice facilitates the clearance of goods through customs and benefits both the department and the importer, it is contrary to sections 22 and 79 of the Customs Act. Accordingly, it would appear that the act should be amended if the practice is to be continued.

The views of the members of the committee on this point of principle would be appreciated.

The CHAIRMAN: Is there any discussion or are there any questions on this particular point?

Mr. GRAY: I think the solution is already contained in the Auditor General's recommendation.

Mr. TARDIF: Except, Mr. Chairman, that I would like to know who decides what is classified as perishable goods—the importer or an officer of the department?

Mr. LONG: The department gives rulings on what is perishable, but the word "perishable" now involves almost everything at some ports I think. Even coal is classified as perishable. This is done in order to get the imports moving.

Mr. TARDIF: I would agree that if it catches on fire it is perishable.

The CHAIRMAN: Any further discussion, gentlemen?

Mr. TARDIF: Before we leave this item may I suggest that this word "perishable" be redefined. If, as you say, coal is considered to be perishable on some occasions, I would suggest that it requires redefinition. This may be a far fetched example you are giving to me, and I hope it is. I could not possibly agree that coal is perishable.

Mr. LONG: Coal is one of the earlier commodities that were so defined. It has been extended beyond that since coal was decided to be perishable. It is purely a device for obtaining clearance without waiting for papers and, with responsible importers, it has led to no problems.

Mr. TARDIF: It could lead to abuse.

Mr. HENDERSON: That is possible.

Mr. LONG: The Customs Act rules out the possibility of this leading to the non-payment of duties.

Mr. TARDIF: On what do they base their opinion that coal is perishable?

Mr. LONG: Perhaps the phrase is "urgently required". It is to avoid delay.

Mr. TARDIF: Based on the season? If it is winter time it is perishable?

Mr. GRAY: It may be considered perishable from the market point of view.

Mr. HARKNESS: The main thing is that the procedures that have been followed have greatly expedited the import of goods. This has been found much more practicable than would have been the case if the officials had stayed within the regulations. Your recommendation now is that the act be amended in order to provide for this, and that seems to me to be reasonable. We should accept that.

Mr. TARDIF: Without adding the term "perishable".

Mr. HARKNESS: One would get away from the term "perishable" altogether if the regulations were amended. One would be doing directly what one is now doing indirectly.

Mr. TARDIF: I have no objection to that, of course.

The CHAIRMAN: It is eleven o'clock, gentlemen, we will adjourn until 9.30 on Thursday morning.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

THURSDAY, JUNE 11, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. Louis Richard, President and General Manager, Crown Assets Disposal Corporation; and Mr. G. R. Long of the Auditor General's Office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif
and Messrs.

Basford,	Grafftey,	Ricard,
Beaulé,	Gray,	Rinfret,
Berger,	Hales,	Rochon,
Cameron (<i>High Park</i>),	Harkness,	Rock,
Cameron (<i>Nanaimo-</i>	Lessard (<i>Saint-Henri</i>),	Rondeau,
<i>Cowichan-The Islands</i>),	Loiselle,	Ryan,
Cardiff,	Mandziuk,	Scott,
Chaplin,	McLean (<i>Charlotte</i>),	Skoreyko,
Côté (<i>Chicoutimi</i>),	McMillan,	Smith,
Crouse,	McNulty,	Southam,
Drouin,	Muir (<i>Lisgar</i>),	Stefanson,
Dubé,	O'Keefe,	Tucker,
Fane,	Pigeon,	Valade,
Forbes,	Pilon,	Wahn,
Francis,	Regan,	Whelan,
Frenette,	Richard,	Winch—50.
Gendron,		

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 11, 1964
(6)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Cardiff, Côté (*Chicoutimi*), Forbes, Hales, Mandziuk, McMillan, Pilon, Regan, Rock, Ryan, Scott, Southam, Stefanson, Tardif, Winch—(18).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. Louis Richard, President and General Manager, Crown Assets Disposal Corporation; and Messrs. Long, Laroche, Crowley, Chapman, Douglas, Smith, Millar and Laframboise of the Auditor General's Office.

The Chairman tabled two sets of Regulations respecting damage claims referred to in discussion of June 9 on paragraph 82 of the Auditor General's Report for 1962. (*Identified as Exhibit No. 1*)

Mr. Baldwin referred to previous discussions relating to surplus materials and invited Mr. Henderson to make a statement thereon.

Mr. Henderson referred to his undertaking to provide the Committee with a detailed report on surplus materials and the administrative difficulty in securing this information from Crown Assets Disposal Corporation.

The Chairman then called Mr. Richard, President of Crown Assets Disposal Corporation, who made a statement in connection with the information requested by Mr. Henderson and was questioned thereon.

After discussion, Mr. Richard agreed to provide Mr. Henderson with information required by the Auditor General to make a detailed report to the Committee.

It was agreed that Mr. Richard supply the Committee with a blank declaration form and specimen copies of tenders.

The questioning of Mr. Richard being concluded, the witness was permitted to retire.

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

On paragraphs 90 to 96 inclusive: Messrs. Long and Henderson commented briefly and were questioned thereon.

On paragraph 92: On the suggestion of Mr. Winch, this paragraph was allowed to stand and the Committee agreed to hear witnesses later from the Department of National Revenue, Customs and Excise Branch.

The questioning of Messrs. Henderson and Long still continuing, at 11.00 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, June 16, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, June 11, 1964

The CHAIRMAN: Gentlemen I see a quorum. We will now convene this meeting.

Before we do anything else, I should like to advise the committee that I have here tabled, as requested at our last meeting, two sets of the regulations in connection with damage claims and methods of proceeding where public property has been damaged through the unauthorized use of vehicles. I think all that is necessary is to table these, making them available to the members of this committee. They are fairly voluminous and I hope that we will be content to have them tabled and available so that they will be used, if necessary, before we proceed with this matter.

Gentlemen, there is one other matter we should deal with before we carry on. You may recall that at our second meeting Mr. Winch raised a question in respect of Crown Assets Disposal Corporation and its relationship to the estimates. At that time it was suggested that Mr. Henderson might come back at the next meeting and make a statement in answer to questions, to the extent that he had information available. This was done. This committee then made the suggestion, which I consider was in effect a request to Mr. Henderson, that he prepare a more detailed statement to bring to this committee and when this had been done we would then arrange for the presence of Mr. Richard, or other officials from Crown Assets Disposal Corporation and the Department of National Defence, in order that we might fully go into this question.

Mr. Henderson indicated to me recently that he was not in a position to obtain that information. I have asked him to make a statement to this committee now in regard to his reasons for this inability. Mr. Richard, the president and general manager of the Crown Assets Disposal Corporation, is also present and when Mr. Henderson has completed his statement I am going to ask Mr. Richard also to comment on this particular issue.

Mr. WINCH: Mr. Chairman, I gather from what you have said just now in respect of my request through you to Mr. Henderson that the Auditor General is not able to obtain that information. I hope he will give us some detail in that regard.

Mr. A. M. HENDERSON, (*Auditor General of Canada*): Yes, indeed.

The CHAIRMAN: I believe that is the basis of Mr. Hendreson's statement at this time.

Mr. HENDERSON: Mr. Chairman, I might remind the members that at last week's meeting Mr. Winch inquired as to the extent to which the audit office follows through purchase of equipment and stores originating in departmental estimates to their ultimate use. He was particularly interested as to the extent to which such public stores and materials might be declared as surplus and turned over to Crown Assets Disposal Corporation for sale. In considering this question, members of the committee expressed interest in noting the reasons why public stores and materials of this character would be declared surplus and to know how much in fact would have been realized on disposal of such surplus as compared to the original cost of the material.

In my statement to the committee last Thursday, I referred to the Auditor General's responsibility in examining accounts relating to public property and how the audit office discharges that responsibility. I took the fiscal year 1962-63 and by reference to the annual report of Crown Assets Disposal Corporation cited the corporation's reference on page 6 that during that fiscal year 12,061 reports of surplus were received. I explained that of this number, some 8,500 separate declarations of surplus material had been made by the Department of National Defence. Of this number, approximately 2,600 declarations covered new or otherwise usable materials having an aggregate cost to the Department of National Defence of \$39,500,000.

The committee asked me to undertake a special examination of these 2,600 declarations for the purpose of determining the nature of the material, date and amount of its original cost, the reasons for its declaration as surplus by the department to Crown Assets Disposal Corporation, and how much the corporation collected from its disposal. I agreed to undertake this special study estimating that it could be completed within three weeks or by June 30, with the assistance of senior officers and staff both from the Department of National Defence and Crown Assets Disposal Corporation.

The work must be started from the records of Crown Assets Disposal Corporation because it is only from these records that we can identify the declarations making up the 2,600 national defence ones we are seeking and thus determine how much the corporation realized on disposal. However, it appears we are faced with administrative difficulties in extracting this information from the records of the corporation under the timetable I gave to the committee last week. It is for this reason that Mr. Louis Richard president of Crown Assets Disposal Corporation, wishes to discuss the matter with you this morning.

Thank you.

The CHAIRMAN: Thank you Mr. Henderson. I am not sure that Mr. Richard, the president and general manager of Crown Assets Disposal Corporation, is known to all the members of this committee. He has appeared at my request after a discussion, not to deal with the main issue which will be referred to later but with what I might call a preliminary problem which has now arisen and which I think has been accentuated by what Mr. Henderson has said today.

Mr. Richard, would you mind discussing this problem with the committee?

Mr. L. RICHARD (*President and General Manager—Crown Assets Disposal Corporation*): Mr. Chairman, Mr. Henderson has approached us recently to ascertain to what extent we can carry out such a study, and I assured him that we would be pleased to co-operate and provide all the information we could from our records, but that the difficulties which arose were primarily those of time and staff. We are particularly pressed at this time of the year and it would be quite a strain to undertake a detailed study. However, if something else must suffer we will do so.

What I should like to point out is that although we state in our report we have received so many thousand declarations in one year, that is our figure. This figure of 8,500 in respect of national defence declarations, and 2,600 for new material, are not taken from our records. Apparently the idea is to match our records with those 2,600 declarations which appear in the Department of National Defence records. The difficulty in this regard lies in an effort to match up these 2,600 with those which appear in our records, and that is where the time would be consumed.

I have suggested that in view of the figures which have been produced by Mr. Henderson, perhaps we could approach the problem from a study of the

declarations which are in our records. We will produce the number, the original cost which is covered by these declarations, and they should be substantially the same as the others. However, we will not have to match up all these declarations of the Department of National Defence with our records. Under these circumstances the work would be much more simplified and would produce substantially the same information, or the same type of information, if the members of this committee and Mr. Henderson are agreeable.

The CHAIRMAN: Thank you Mr. Richard. Are there any questions?

Mr. FORBES: I should like to ask one question for clarification. What does Mr. Richard mean by "declarations"? Does he mean invoices in respect of the material? What does a declaration consist of in this case?

Mr. RICHARD: A declaration represents the first step. It is the receipt of the surplus from the Department of National Defence. After that it goes through all our different processes and ends up with an invoice to the customer.

Mr. FORBES: The declaration then has nothing to do with the quantity of material?

Mr. RICHARD: Yes.

Mr. FORBES: It is an invoice then?

Mr. RICHARD: Both the declaration and the invoice include the quantity of material involved.

Mr. WINCH: In order to pinpoint this a little bit, Mr. Chairman, because I realize the difficulty involved in going through 2,600 declarations, could Mr. Richard give us some general indication in respect of the sale of this new equipment and the amount received as compared with the original cost? I understand you show that information also on the declarations?

Mr. RICHARD: You are asking us if we can cite the average percentage of recovery we make?

Mr. WINCH: Yes, in respect of the equipment turned over to you.

Mr. RICHARD: We do not compute information of that kind, Mr. Chairman, and the prices vary to such an extent the information would mean nothing in any event if we did compute it.

Mr. WINCH: I am sorry, did you say that if you had approximate information regarding the amount received in respect of new equipment compared with the original price that information would not mean anything?

Mr. RICHARD: That information would be based on so many thousand declarations that even if it was 10, 20, 40 or 50 per cent it would not mean anything.

Mr. WINCH: I am sorry, I do not wish to put Mr. Richard on the spot but I cannot understand what he means when he suggests that information in respect of a comparative figure regarding the cost and recovery price of hundreds of thousands of dollars worth of equipment would not mean anything.

Mr. RICHARD: That information certainly would mean something to the taxpayer but it would not indicate anything to us.

Mr. MANDZIUK: Mr. Chairman I am also interested in Mr. Richard's answer to my colleague. Perhaps if Mr. Richard cannot give us a figure regarding the resale price of the new equipment, surely the Crown Assets Disposal Corporation balances its books at the end of the year and Mr. Richard can give the members of this committee information regarding the book value of assets received as surplus and the final receipts for the same after disposal? Are there no bookkeeping systems in effect in the Crown Assets Disposal Corporation at all?

Mr. RICHARD: We do not record the original costs.

Mr. WINCH: The original cost is indicated on the declarations.

Mr. MANDZIUK: You do not have to record the original cost because, as my colleague has pointed out, that cost appears on the invoice or declaration.

Mr. RICHARD: The cost appears on the declaration, that is right.

Mr. MANDZIUK: Do you record the price you receive for the material when it is sold?

Mr. RICHARD: Yes.

Mr. MANDZIUK: We should like to know those two figures. We do have the figure of \$39,500,000 and we should like to have the other figure whether it is \$500,000 or \$2 million, so that we know where we stand.

Mr. RICHARD: We will have a record of the amount of proceeds we have received, but even then that figure will not be broken up as between new and scrap material or otherwise.

Mr. MANDZIUK: I fully realize the difficulty involved in breaking up that figure between new and old equipment. Perhaps that is an impossible task but I am just as interested as Mr. Winch in knowing what the comparison is in order that perhaps the impression generally throughout the country that regardless of whether this surplus is new or used it is sold for practically nothing can be dispelled or confirmed. I think it would be well for us to have information in this regard.

Mr. HALES: Mr. Chairman, I apologize if I repeat some of the questions that have been asked, but as I understand the situation, there has been \$39,500,000 worth of new equipment bought by the Department of National Defence and turned over to the Crown Assets Disposal Corporation for resale.

Mr. WINCH: Both new and used equipment is represented by the \$39 million.

Mr. HALES: This committee would like to know how much of the new equipment was sold by Crown Assets Disposal Corporation and at what price. Mr. Richard has informed us that there are invoices or declarations in existence. Perhaps he could produce one of those declarations so that we may see what it is.

As I understand the situation, a declaration lists the item and the original cost. We should like to know what the item was sold for. Apparently the Crown Assets Disposal Corporation does not break down the receipts as between new and used equipment, and if that is not being done now perhaps the Auditor General's department could set up a bookkeeping system as a result of which these items could be divided into new and used so that at the end of the year by adding up the original cost column and the price column, representing the amount received when the items were sold, we would have an answer to the question Mr. Winch has asked.

The CHAIRMAN: Do you have a declaration available Mr. Richard?

Mr. WINCH: I have seen hundreds of those declarations and on the declaration there is an indication regarding the equipment being new or used. I think there is an indication on the declaration that the equipment is guaranteed new but not warranted.

Mr. REGAN: Mr. Richard, as I understand the situation, the reason your department does not keep track of whether the equipment is new, or the original cost, is that the concern and purpose of Crown Assets Disposal Corporation is to dispose of goods which are handed to you by the various departments; it is not your concern whether the department should have had the materials in the first place, and it is not your concern why the department handed the material over to you; is that right? I understand your concern is to get the best possible price for the material, and in view of the fact you dispose of the material on a competitive tender basis the original value is of no particular consequence to your information; is that a correct assumption?

Mr. RICHARD: That is correct.

Mr. WINCH: That is of some consequence to the members of this committee.

Mr. REGAN: As Mr. Winch has suggested, this information certainly is of interest to the members of this committee and I think we are all interested in knowing what percentage of the original value of this equipment the government has recovered in order that we can determine whether this is an efficient method of disposing of that extra government equipment, or whether some other system should be devised. Certainly I do not think that Mr. Richard's operation is subject to criticism because of the fact detailed records in this regard are not kept. That is not one of the purposes of the Crown Assets Disposal Corporation. The purpose of that organization is to dispose of the surplus equipment by competitive tender.

Mr. WINCH: May I point out by way of comment that as a result of Mr. Richard's evidence and my perusal of certain of these declarations I know that the new price is known.

Mr. REGAN: Yes, I realize that the original price is known but what Mr. Richard is saying is that it is not the purpose of the Crown Assets Disposal Corporation to prepare a list of thousands of prices in respect of these items. The individual inventory shows the original price and those prices are listed for that purpose, but these records are not compiled into difference groups. Is that right Mr. Richard?

Mr. RICHARD: That is correct with one qualification. We do not always have the original cost price on the declaration. We do have that price in the majority of cases but some cases do exist in respect of which we have not got that information. Moreover, in respect of goods which are otherwise coded, in probably 100 per cent of them we do not have the original cost.

Mr. HENDERSON: Perhaps I might speak in regard to Mr. Regan's point. We realize that Mr. Richard's concern might not be with the original cost of the material, and that is why I discussed this problem both with Mr. Richard and the deputy minister of national defence, on the basis that using the records of the Crown Assets Disposal Corporation as a starting point we would pick out the appropriate number of the 2,600, which would account for the largest portion of the \$39,500,000 and then sit down and examine them. Mr. Armstrong has already designated a senior officer and staff to sit down with us to go over these in order that we can furnish explanations regarding why the items were purchased in the first place, the dates and the costs and why they were declared surplus. That seems to us to be a very integral part of your question. We must have a starting point and to all of us that starting point lies in Crown Assets Disposal Corporation records.

Mr. REGAN: Beyond that, Mr. Henderson, is it not true that we can understand why the Crown Assets Disposal Corporation has not been particularly interested in original prices since it is operating on a tender basis? If we make some determination in this regard we will then go back to the Department of National Defence to find out why these goods were purchased in the first place, why they were disposed of and whether in some cases the items were bought in an unused condition so that we can decide whether the taxpayer is receiving the largest amount possible in respect of the disposal of these goods? Surely the information we are interested in receiving from Crown Assets Disposal Corporation has regard to the size of the lots of goods which are being put up for sale by tender, how they determine whether new items should be tendered separately or not or whether this is done on a lot basis with a great number of different types of commodities included. I think we are also interested in knowing who is allowed to compete for these commodities and what the general overhead or operating costs of Crown Assets Disposal Corporation are.

Mr. HENDERSON: May I answer that question by referring you to our planning memorandum on this assignment? What we hope to get from the records of the Crown Assets Disposal Corporation are the reasons for the declaration as surplus to the corporation, the method of sale by the Crown Assets Disposal Corporation—that is the type of method you described—the date the articles were sold and the prices obtained, and in a final column a calculation of the final profit or loss in each case, which would then give us the disposition of the material in dollars and cents. I think that is the essence of your question.

Mr. REGAN: The method of sale I presume would cover a wide field?

Mr. HENDERSON: Yes, and there will be a considerable amount of additional information supplied with the resultant dollars and cents calculation.

Mr. CARDIFF: Is all this material being sold by advertisement tender or is it sold individually? How is this material sold?

Mr. HENDERSON: Perhaps Mr. Richard could answer that question.

Mr. RICHARD: This material is sold by offer to dealers in the trade. We request those dealers to put in their bids and the material is sold to the highest bidder. The material is offered to dealers in the trade.

Mr. WINCH: It is offered to the dealers in the trade who are on your mailing list at their request; is that right?

Mr. RICHARD: We offer the material to the dealers in the trade who are on our mailing list. I should like to point out that our mailing lists are not restrictive at all but are prepared in order that when we have a specific item of goods to offer the list is readily available and we can mail out circulars asking for bids. It is sold by what is normally referred to as tenders or bids.

Mr. TARDIF: It appears to be the consensus that the committee would like to know just how much of this unused material is sold and what is the difference in price between cost and sale. I do not see what great problem would be created if the department did go to the trouble of keeping at least a list of new materials; it would only be an additional few bookkeeping entries, I would think.

You could also find out whether that restrictive list that was talked about is not more restrictive than it should be. I know people who wanted to bid on some material which was declared surplus who were not only not invited but whose bids were not accepted by the department. I am wondering whether this restriction the department puts on by not accepting bids from anybody willing to bid and willing to pay with legal Canadian currency is not too limited, and I am wondering whether, if we did have a compilation of new material that is sold and the difference in price, it might not induce this committee, for instance, to make recommendations that might be put into effect next year that would be an improvement over the present system.

Mr. McMILLAN: Mr. Chairman, I would like to know the meaning of the words "new material". Does it mean unused material or does it mean material bought recently?

Mr. HENDERSON: It generally means material which has not been used.

Mr. McMILLAN: Even though it is 10 years old?

Mr. RICHARD: There are various conditions of material. It could mean, to go to the extreme, material that is new, has never been used, has been in the original packing cases but has been there for years.

Mr. McMILLAN: Could some of this material included in these 2,600 declarations called "new material" have been purchased some years ago?

Mr. RICHARD: Yes.

Mr. McMILLAN: Not necessarily recently?

Mr. RICHARD: No, sir.

Mr. WINCH: I am very glad that Mr. McMillan raised this question. I personally know of equipment from the Department of National Defence that was put up for tender two months ago in Vancouver and, to my knowledge, because I am in the construction industry, has been out of date for 15 years, and yet on the tender it was warranted as having been unused. So, this is all part of the problem.

While I am speaking, sir, although it is the general picture that we are after on what can be done, I was most interested in a remark of Mr. Richard a moment ago, that all declarations do not necessarily give the purchase price, although the majority do. I, therefore, have what I think is a logical question. When you put that up for tender, not having known what the department paid for it, how do you decide whether you will accept or reject that tender?

Mr. RICHARD: Largely on the experience of the past when we have offered similar goods to the trade and we know the recoveries we have made in the past. We can determine from that whether the highest bid is acceptable.

The CHAIRMAN: May I interrupt here? Have you that declaration Mr. Richard? Possibly the messenger might pass it around. Some of the members did express interest in it.

Mr. WINCH: There is one further question that I have, Mr. Chairman.

Mr. HALES: Wait until we have this declaration. Have we one or have we not?

The CHAIRMAN: I was going to ask Mr. Richard if he is in a position to comply with the request of the committee.

Mr. WINCH: I would like to ask now that I am certain that Mr. Richard has an idea what the committee has in mind and what is the type of information which we feel as a committee we should have on a most important matter whether he can now, in his opinion, work out with Mr. Henderson a plan whereby it will be possible, at least in a basic sense, to get the data which is required by this committee?

The CHAIRMAN: Maybe you could postpone your answer to that, Mr. Richard, until we find out about the declaration.

Mr. RICHARD: Just before I left my office, Mr. Chairman, I picked up half a dozen files which are not very representative. I would hesitate to circulate any of them to the committee.

Mr. HALES: I simply asked for a blank declaration form so as to see the the standard form. Have you a blank declaration form?

Mr. RICHARD: No.

Mr. HALES: I am amazed that the witness would come to this meeting without this material.

Mr. RICHARD: I was not asked to bring any.

Mr. HALES: We had better not waste any more time on this particular question. I would think the committee has made a request for the information which they want, the Auditor General is prepared to supply the information to the committee if he has the co-operation and support of Crown Assets Disposal Corporation, and I think the committee is entitled to know if the Auditor General has this support, and if not, why not, and then we will proceed with another matter.

The CHAIRMAN: Before we go on, I will go back to Mr. Winch's questions to which we did not get an answer. We should dispose of this question which may be of consequence later. Is your position, Mr. Richard, that you feel you should not disclose the terms of the declarations which have been made, or is it just because the declarations are not representative? I am not concerned

about today, but when you appear later; we should probably settle this thing in advance. What is your view, as president of the corporation, on your rights and duties with regard to presenting to the committee declarations which they may wish to examine following Mr. Henderson's comments?

Mr. RICHARD: I would be glad, if the committee desires, to produce a representative sample of declarations.

Mr. WINCH: That is not the request of this committee. The request of this committee is that this matter is of such vital importance to all members of the committee because of the disclosures which are now coming to our attention, that, as the public accounts committee of the House of Commons, we want to make a thorough examination. We do not want to have any specific or individual copies: we want to know what is the basis of, let us say, one department declaring surplus \$39½ million worth of equipment of which, according to Mr. Richard, a great deal was unused. What is the cost and what was it sold for? We want that information right down the line, from beginning to end. I think this is one of the most serious questions that has come to the attention of the public accounts committee in the 11 years that I have been a member of it, and we would be shirking our responsibility if we did not insist on a complete study and an answer in order that we can do our duty in making our report to the House of Commons.

The CHAIRMAN: It comes down to this, Mr. Richard. This is a preliminary discussion now, but during the course of the main discussion, as I understand the feeling of the committee, they may, and probably will, require the production of such declarations as they feel are necessary to continue their study and examination. I think it might be best to settle at this time what your views are. Are you in a position where you feel you must refuse to produce those, and if so on what basis?

Mr. RICHARD: Certainly not, Mr. Chairman.

The CHAIRMAN: So that if the committee calls for any particular declarations, you would be in a position to produce them?

Mr. SCOTT: Should we not be asking for something further than has been asked for? It is my understanding from the discussions that the question we are putting to the witness is whether he is prepared to make all files available for Mr. Henderson's examination, not just a representative number, or an unrepresentative sample which he brought today, by his own words. Are you prepared to produce all files in question for examination?

Mr. RICHARD: Yes, sir.

Mr. ROCK: Mr. Chairman, I came in late, as you know. I want to know what item we are on, and is it in the 1962 report?

The CHAIRMAN: No, Mr. Rock. This is going back to a matter which was discussed at our second meeting, at which time Mr. Winch requested that Mr. Henderson appear at the next meeting to answer a question he raised on the relation between estimates and assets which had been disposed of under the aegis of the Crown Assets Disposal Corporation. Mr. Henderson appeared at the next meeting, and our committee then arranged, as I think it was virtually an understanding, that Mr. Henderson would prepare a preliminary statement for the use of the committee, and when that statement was ready then Mr. Richard and the deputy minister of national defence would both appear here, and with the aid of a statement prepared by Mr. Henderson we would have then a full discussion of this whole problem which was raised by Mr. Winch. What we are now discussing is the fact that Mr. Henderson feels he has been unable to prepare the statement because he and Mr. Richard have not been able to get together on the materials Mr. Henderson feels he requires. This is what we are discussing now.

Mr. ROCK: I thought we were here principally to discuss the report of the Auditor General. What I want to know is what report from the Auditor General we are discussing concerning Crown Assets Disposal Corporation, or is it that any member now can have any beef whatsoever and bring it up to this committee?

The CHAIRMAN: No, Mr. Rock. This is a matter which was properly raised dealing with the matter that came up in Mr. Henderson's follow-up report. The discussion was properly initiated and quite relevant at that time.

Mr. ROCK: What was it all about, where is this report and on what item was it?

Mr. STEFANSON: If you had come in earlier you would have known.

The CHAIRMAN: It appears in the second item in the follow-up report which Mr. Henderson dealt with.

Mr. ROCK: Last year?

The CHAIRMAN: No, of the follow-up report which is produced by Mr. Henderson and which deals with the extent to which the departments of the government have complied with the request which we made last year. We started with that. Mr. Winch asked a proper and relevant question. We agreed that Mr. Henderson should answer that question at the next meeting. As a result of his answer the committee then decided that, following the preparation of the preliminary report, there would be a further meeting some time in the future at which a representative from the Department of National Defence, Mr. Richard and Mr. Henderson, would be here. Now, we have arrived at an impasse. In order for Mr. Henderson to prepare a statement which the committee asked him to prepare, he wants certain information from Mr. Richard, and the inability to secure that information prompted him to come to me as Chairman of this committee. I asked Mr. Richard to appear here so that the committee, which is the proper place to discuss and decide this, should hear both Mr. Henderson and Mr. Richard and come to a decision on it. It is a preliminary point on a matter which the committee has dealt with, and a point for a study later on in the course of our proceedings.

Mr. RICHARD: May I interject here, Mr. Chairman? You speak of the inability of Mr. Henderson to obtain this information. Might I say that we are merely pointing out how large a task it is going to be and how difficult it is to prepare this information on this basis. I would rather use the basis that we start from our own records rather than the records of national defence.

Mr. HALES: I should like to speak to this point. I think the committee has brought up a good suggestion for future comparison, and maybe the books of Crown Assets Disposal Corporation could be set up on the basis that it would be only a matter of ending a column at end of each six months or the end of the year so that in future these figures would be available.

While I am speaking, Mr. Chairman, let me say that I think we have achieved what we wanted, that is to get this on the rails so that the final report can be made. I would just like to say, through the Chairman, that perhaps one way of seeing these declaration forms is to have an appendix attached to the report, or else have a blank declaration mailed to the members of the committee so that we can study it.

The CHAIRMAN: Could you forward a blank of one of these declarations? We can have it appended to our proceedings and printed in today's proceedings. Would that be possible, Mr. Richard?

Mr. RICHARD: Yes.

Mr. WINCH: And a number of specimen copies of tenders.

Mr. RICHARD: Yes.

The CHAIRMAN: This would be useful background material when we have our further discussion. We now come to the question raised by Mr. Winch. Would you be able to repeat your question?

Mr. WINCH: As a result of Mr. Richard hearing the discussion—and I appreciate his appearance here this morning—he must now have a pretty clear understanding of what is in the mind of the committee and why we want this information. Does Mr. Richard now think, as a result of this discussion these last forty-five minutes, that he and Mr. Henderson can now get together so that between them this committee can have the information desired?

Mr. RICHARD: Mr. Chairman, it is a matter of time and of sufficient staff to prepare this information.

Mr. WINCH: Can you do it in a month?

Mr. RICHARD: We certainly feel that Mr. Henderson and I can get together and prepare the information.

Mr. WINCH: That is all we need.

Mr. HENDERSON: May I speak to that, Mr. Chairman, and say this. I think Mr. Richard has agreed with us right along that this job can be done the way you want. However, if we follow the method he described, it would not, in the view of my officers and myself, give you the end result you want.

Now, the real key to this is if he made available a senior man and sufficient staff to enable this material to be taken out of his records. If he is in the position to furnish me with a senior man and the necessary staff to get it rolling, the same way as Mr. Armstrong proposes to do on his side for the Department of National Defence, then we can get the thing under way.

As for the timing, I had hoped that it could be brought to you for your meeting on June 30. What do you think about that, Mr. Richard? Do you feel we can do it in two weeks?

Mr. RICHARD: I am not prepared to state any period of time.

Mr. WINCH: I think we can end it in this way. As I originally raised the question, I can say that we know how important all departments are. We have a definite understanding on how shorthanded the Auditor General's staff is. I am quite certain, as a member of the defence committee, that the defence staff is pretty busy. However, in view of the fact that the Department of National Defence is prepared and has agreed to allocate a senior man and staff, also, in view of the fact that Mr. Armstrong although he is so shorthanded, as we have heard from the Auditor General, is prepared to do that, I am therefore quite confident that, despite all the problems that Mr. Richard has, he will find it possible to tie in with the other two departments and to make a senior man on his staff available. I am quite certain of this, and I have every confidence in you.

Mr. HALES: Just so that we will not overlook the point when we come to make our recommendation at the close of our session, let me say that it has been intimated that these declarations do not all have the original cost on them. I would think this committee would like to make a recommendation that all declarations must have the original cost on them.

Mr. WINCH: You mean on new equipment?

Mr. HALES: Yes, on new equipment.

Mr. WINCH: It would be impossible to have it on all of them in view of the hundreds of thousands of items of Crown Assets Disposal Corporation.

Mr. HENDERSON: May I make a further observation on that interesting point, Mr. Hales? I have wondered for some time, and your comment has

touched on it, why, in the annual report of Crown Assets Disposal Corporation, there could not in fact be a statement with respect to government property that is being sold during the year which was declared surplus, with some notation of its original cost, so that from year to year you would see in the published accounts of the corporation what loss has in fact been sustained during that year's operation. This may not be the end responsibility of the Crown Assets Disposal Corporation as such, but it would provide a very useful disclosure of pertinent information for the government as a whole to the members of the house, I would think.

Mr. PILON: You mentioned the profit and loss statement. Do you not think that it would be very difficult to reconcile the cost price and the residual value after 10 years?

Mr. HENDERSON: I would think the statement that might be inserted in the accounts would carry some descriptive breakdown indicating that aspect.

Mr. WINCH: Why there is a declared surplus of unused equipment that has been held for 10 or 20 years would be a phase of our investigation which does not come under Mr. Richard.

The CHAIRMAN: Any more questions?

Mr. REGAN: Only to comment that when this information is available from Mr. Richard we will be able to look at the original cost and what was realized and we might then want perhaps to ask questions about the method of sale and the size of lots, and so on.

The CHAIRMAN: The matter will be wide open at that time. Thank you very much Mr. Richard. I am sure it has been a very useful and frank discussion and that we will be able to hear that progress has been made between you and Mr. Henderson so that the wishes of the committee will be met in due course. Thank you very much for coming here this morning.

We will now carry on where we left off, which is paragraph 89, which reads:

89. *Release of goods under Customs Collector's permission.* Sub-section (1) of section 22 of the Customs Act, R.S., c.58, reads as follows:

Unless the goods are to be warehoused in the manner by this act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unlading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer.

In addition, section 79 of the act reads:

No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods.

Notwithstanding these statutory directions, it has been the practice of the department for many years to release perishable goods prior to the passing of a customs entry and payment of duty, providing the importer has posted a bond or security as a guarantee of payment of duty. The term "perishable goods" has gradually been extended and now includes a wide range of goods.

There seems little doubt that the practice being followed facilitates the clearing of goods through customs, and benefits both the department and the importer. However, sections 22 and 79 of the act quoted above appear specifically to prohibit what is being done and the act should be amended if the practice is to be continued.

Mr. HENDERSON: I am going to ask Mr. Long if he would continue bringing these next few paragraphs to your attention because you may recall at the last meeting he had already commented on several of them.

Mr. G. R. LONG (*Supervisor, Auditor General's Office*): Paragraph 90 deals with the sale of goods unclaimed at customs. Again, this note refers to a practice which has undoubted merit from the revenue point of view, but nevertheless there should be an amendment to section 23 of the Customs Act if it is to be continued. The views of the members of the committee would be appreciated on this principle.

The CHAIRMAN: Is there any discussion on this point?

Mr. HALES: I do not understand the problem.

Mr. LONG: When goods are unclaimed at customs the law requires that if they can be sold for a sufficient amount to cover the duty and any storage charges which have accumulated, they may be sold. If they cannot be sold for this amount, they must be destroyed. Sometimes the addition of storage charges would mean that goods would be destroyed which are worth something, and they could be sold, bringing revenue to Canada. The department has taken the practical view that as long as they get the duty, it is wise to sell rather than to destroy.

Mr. HALES: Sold by auction with a reserve bid.

Mr. LONG: I am not sure of the exact detail there, but we have never seen anything to indicate that the department does not follow the proper practices in selling.

Mr. WINCH: All you are asking actually, if I read it correctly, is that consideration be given to statutory authority being obtained on what is now a custom. Is that basically what it is?

Mr. LONG: The custom is really contrary to the wording of the act now, but it is a reasonable custom.

Mr. WINCH: Is it that the statute be changed so that they are not doing something illegally which is the proper thing to do?

The CHAIRMAN: Thank you. Are there any further questions?

Mr. HALES: Just before we leave this paragraph I should like to ask whether any of this equipment is destroyed?

Mr. LONG: Unless the equipment can be sold for a sufficient amount to cover the duties and taxes it cannot be allowed to go into use in Canada and must be destroyed. The department has taken the view that if it recovers the duties and taxes then it is good sense to do so rather than destroy the goods.

Mr. SOUTHAM: Mr. Chairman, it has been pointed out that the practice followed in this regard does not comply with the act. If the practice followed is satisfactory to the Auditor General, and I think most of us will agree that the practice as outlined is the most practical method, then perhaps it is desirable to recommend an amendment to the act giving legislative authority for this practice.

The CHAIRMAN: Thank you Mr. Southam. Your suggestion is, in view of what has been pointed out by Mr. Long, the consequential amendment should be made making legal what is a practice. This is something perhaps we can deal with when we come to the consideration of our report.

Mr. SCOTT: I just wonder whether you can give us some idea regarding the amount of money involved? Is this a large item?

Mr. LONG: The sales result in \$60,000 per year revenue.

Mr. WINCH: Have you any idea of the value of goods destroyed?

Mr. LONG: We would not have any record in that regard.

Mr. McMILLAN: Does the actual physical destruction of certain goods take place? I happen to be aware of an incident regarding a citizen of the United States who moved to Canada and intended to bring his car some months later, but rather than pay the high duty he left the car at the customs office. Would that car actually be physically destroyed?

Mr. LONG: I suppose the answer in that regard is that if the car could not be sold as a usable car it would be sold to a junk dealer as scrap. It would have to be taken away from the customs house because it could not be left there.

Mr. McMILLAN: I understand it must have been sold at the customs house at some time because it could not be sold to a junk dealer for less than the cost of the storage.

Mr. HALES: Mr. Chairman, would it be sold through the Crown Assets Disposal Corporation?

Mr. LONG: No.

Mr. HALES: Does the customs department have authority to sell such an item?

Mr. LONG: Yes.

Mr. REGAN: I do not quite understand the reason for the principle that if an article cannot be sold for a sufficient amount to pay the duties and other charges it cannot be brought into the country. The original owner has forfeited the goods and does not receive anything from the sale, as a result of which any revenue realized from the sale of an article would be revenue for the department. Why does the amount that it is sold for necessarily have to be sufficient to cover the duty and charges?

Mr. LONG: If we permitted an article to be used in Canada without having collected the duties applicable to such an item we may be allowing an individual to avoid paying the tariff on importation.

Mr. REGAN: You certainly would not allow an importer to operate a profitable business in this way because he would have to forfeit the goods and would not then receive anything as a result of the sale. Only the customs department would receive anything from the sale of such an article. How do you dispose of these goods? I assume you sell them on tender?

Mr. LONG: The original owner may well turn out to be the highest bidder at something less than the duty.

Mr. TARDIF: If an article was sold for an amount greater than the charges against it would the importer receive the difference?

Mr. REGAN: No.

Mr. TARDIF: Would the total amount of the sale be confiscated by the crown?

Mr. LONG: If the importer made such a request I understand he would receive anything over and above the duties and charges.

Mr. TARDIF: Is there any possibility that an article may be sold for an amount greater than the duties and charges against it? Are these goods not put up for sale subject to the duties and charges against them so that if anyone wishes to buy them that is what would have to be paid? Is that not the case?

Mr. LONG: The goods are sold by tender.

Mr. WINCH: Are the goods sold on tender or auction?

Mr. LONG: They are sold by auction and could be sold for more than the duties and charges.

Mr. TARDIF: I take it a reserve bid is placed on the articles?

Mr. LONG: The amount of duties and taxes must be recovered.

Mr. SCOTT: The chance that an article will be sold for more than the duties and taxes is almost nonexistent when you only list against the article the charges of storage and taxes; is that right?

Mr. LONG: When these articles are being sold at an auction the price offered depends on the individuals buying and how interested those individuals are in acquiring the articles.

The CHAIRMAN: Are we now satisfied with that item? Shall we move now to paragraph 91?

Mr. CARDIFF: I think this material should be sold by public auction rather than sold to any particular group of dealers. I think the articles should be advertised for sale so that if someone desires to purchase the article as an individual he has an opportunity of doing so. I do not think the sale should be confined to a certain group of dealers, but rather they should be sold to the general public in order that the department can recover the greatest amount possible.

Mr. McMILLAN: Are these sales well advertised? I realize there are a number of sales which take place in the Niagara Falls area but I have not seen advertisements in regard to these sales appearing in the local newspapers.

Mr. LONG: I think the sales are advertised locally only.

Mr. HALES: I suggest that a member of our committee, Dr. McMillan, go to the next auction and report back to this committee in respect of the bargains available.

The CHAIRMAN: I do not know whether we have any funds to authorize him to bid for us.

Mr. REGAN: I do not favour the idea that these articles should be destroyed if any revenue can be realized from them. I assume that most of the goods involved are goods brought into Canada from the United States and seized at the border. Is there any procedure in existence whereby, if an article is of such a nature that you cannot realize the cost of the duties and taxes through a sale in Canada, they can be disposed of in the country of origin such as in the United States?

Mr. HENDERSON: The fact is that the goods at that point have been left at the customs house and are unclaimed, and the customs department is interested in those goods to the extent of the unpaid charges and duties. The officers make the best deal they can, and will not permit these goods to come into Canada through the normal channels. They will not allow a car, for example, to travel on Canadian highways.

Mr. LONG: I think you must remember that these things will not be abandoned if there is any possibility of receiving very much for them. I do not think there is very much value to the Canadian taxpayer involved.

Mr. HENDERSON: We have no criticism of the department's handling of this situation but merely of the rigidity of section 23 of the act which, as Mr. Winch has suggested, might well be amended, or considered for amendment at the first opportunity. I gather that is the consensus of the committee.

The CHAIRMAN: May we now move to paragraph 91?

91. *Duties and taxes on surplus United States government property sold in Canada.* By international agreement United States government property located in Canada which becomes surplus to requirements

disposed of by Crown Assets Disposal Corporation on behalf of the United States government. Much of this property came into Canada without payment of duties or taxes and therefore becomes subject to the applicable duties and taxes when sold in Canada. Because of the great variety of goods and materials, frequently located in remote areas, it is considered administratively impracticable to apply the customs tariff and the normal customs appraisal procedures to these sales. The Department of National Revenue accordingly annually establishes a composite rate (currently 15.25 per cent) which is applied to the proceeds of all sales of the United States government property by Crown Assets Disposal Corporation, the rate being based on the average rate of duty on all imports from the United States for the last completed year for which statistics are available.

The practice being followed seems to be a practical way to meet the problem but, as there is no statutory authority for the establishment of such a composite rate, even with the approval of the Governor in Council, authority should be provided by Parliament if the practice is to be continued.

Mr. LONG: Paragraph 91 deals with the collection of duties and taxes on surplus United States government property sold in Canada.

The practice described in the audit appears to be a practical way to meet the problem but as there is no statutory authority for the establishment of the composite rate referred to, even with the approval of the governor in council, authority should be provided by parliament if the practice is to be continued.

Here again comments of the members of this committee would be appreciated.

Mr. WINCH: I gather the situation in respect of this paragraph is exactly the same as that in respect of the previous paragraph. The practice followed is the correct one but it has no statutory authority.

Mr. HENDERSON: That is precisely the situation.

Mr. WINCH: Perhaps we should make some recommendation in this regard as in the case of the previous paragraph.

Mr. SCOTT: This is the second indication we have had that a practice is being followed by a department for which there is no statutory authority. Now does this situation occur? Do the officials in these departments just make up their own rules for dealing with these situations and then after the rule becomes the practice do they come to us for legislative authority? Is any attempt made to find out in advance whether there is any legality for a specific method?

Mr. LONG: I think the answer to your question probably is that some of these sections in the customs act are very old. This particular situation only arose when the United States government closed bases in Canada and the Crown Assets Disposal Corporation disposed of the material for the United States government. Who is to go and assess the customs duties on hundreds of thousands of dollars worth of material and equipment which is United States owned and has been brought into Canada without being subject to duties and taxes?

Mr. SCOTT: I am not being critical at this time but, as you have suggested, this is the practical method to be adopted and I am curious to know how long this situation has existed.

Mr. LONG: I assume this situation has existed since this section of the act was last considered by parliament.

Mr. HENDERSON: We have had some correspondence, Mr. Scott, with the deputy minister regarding this practice, and you might well be interested in

some of the observations he made at that time. He pointed out that a great variety of goods did naturally involve this type of disposal and that it is practically impossible to appraise these goods in the normal way. To accomplish this he felt would involve a great expenditure of money which in his opinion would constitute a waste of public funds. Accordingly he felt that his department had exercised common sense, which indeed they have, in establishing this composite rate representing duties and taxes, notwithstanding the regulations of the customs act on duties. Accordingly you might feel that this is another case where parliament might want to consider an amendment to the customs act in order to give statutory authority to the practice.

Mr. SOUTHAM: As I understand it, Mr. Chairman, this is a comparatively new practice, and up until this time the officials have not had any pattern to follow. I think Mr. Henderson is quite right, that for our own sake and for the sake of the department, as well as everyone else, something specific should be established in the act to cover this situation so that this composite rate of fifteen and one quarter per cent which is practical is included in an amendment to the act.

Mr. HENDERSON: If that would commend itself to the members of this committee it might be the subject for your recommendation.

Mr. SOUTHAM: It certainly commends itself to me, Mr. Chairman. Mr. Henderson certainly seems to be agreeable to this suggestion. Has the deputy minister indicated his feelings regarding this method being a practical or appropriate one to adopt?

Mr. HENDERSON: We feel this would be a practical way of meeting the problem. You might feel that you should invite the deputy minister of customs and excise as a witness. I may say that the next point Mr. Long will deal with falls in the same class and you may wish to reserve your view until we have heard what he has to say about that paragraph.

Mr. SCOTT: I do not feel strongly enough to make an issue about this situation because in the cases with which we have dealt the practice appears to be the practical one. There is a great danger involved in allowing departments to make rules in the first instance and then come to parliament for legislative authority. I feel that the legislative authority should precede the practice, and if changes in the statutes are needed to provide legislative authority for government departments' actions it seems to me that the logical way of proceeding is to grant that authority before the action is taken. The cases with which we have been dealing are not serious but if we endorse such a procedure I think we leave ourselves open to serious criticism as a result of certain unauthorized practices adopted in the future. I feel that at some stage we should make our feelings known in this regard.

The CHAIRMAN: Mr. Scott, I suppose in some cases the officials of the departments who depart from the authorized practice are not aware of the situation until the Auditor General and his officials make an examination and bring it to light.

Mr. SCOTT: I have sufficient confidence in the ability of the officials to suspect that they know whether or not they have authority or not.

The CHAIRMAN: I was not apologizing for them.
Can we proceed to paragraph 92?

Mr. HENDERSON: Mr. Chairman, I have referred to these situations for exactly that reason, because it is my duty to do so.

Mr. CAMERON (*High Park*): What has the deputy minister said in respect of an amendment to change the situation? Is the deputy minister prepared to recommend to his minister that such an amendment be made, or is there any argument in this respect.

Mr. HENDERSON: I believe the deputy minister has the matter under consideration with his minister. We have had certain correspondence with him in this regard over the past several years. I do not have any progress to report at the moment.

Mr. McMILLAN: Does the 15 per cent composite rate apply to the depreciated or appraisal value?

Mr. LONG: That per cent would apply to the sale price. These articles again are sold by tender.

Mr. McMILLAN: I see.

Mr. LONG: The price would be considered as including all customs duties. It would not be practical to do this in any other way. The Canadian government receives 15.25 per cent of the sale price.

Mr. HENDERSON: You might be interested in the deputy minister's comments to me on this particular subject as they appear in a letter dated October 13, 1960 in which he replied to me about this composite rate. Quoting from that letter the deputy minister states:

As previously indicated, this is a rather abnormal situation, and it may well be that an amendment to the customs tariff could be given study to take care of any doubt that may exist as to authority for the procedure.

Amendments to the customs tariff, as you are aware, are only considered on the recommendation of the Minister of Finance and, in the circumstances I am bringing our correspondence to the attention of the deputy minister of that department for such consideration as he may feel can be given this suggestion.

I believe that is the last word we have had on the matter, Mr. Chairman.

The CHAIRMAN: We are now on paragraph 92, which reads:

92. *Determination of "sale price" for sales tax purposes.* In paragraph 59 of the 1960 report, reference was made to the requirement of section 30 of the Excise Tax Act that sales tax be calculated on the "sale price" of goods produced or imported into Canada, with certain stated exemptions, and it was noted that for some classes of goods sold under certain circumstances to other than wholesalers, the Department of National Revenue had authorized the manufacturers, by regulation, to compute the sales tax on less than the actual sale price. We expressed the opinion that specific authority by parliament is required if the tax is to be computed on less than the sale price of the goods.

The public accounts committee considered the matter during its sittings in 1961 and included in its fifth report of that year (paragraph 56) the recommendation "that the existing method of valuation be provided with statutory sanction".

No action has yet been taken to provide the statutory authority thus recommended. However, the royal commission on taxation established on September 25, 1962 has terms of reference sufficiently broad to permit consideration of this matter.

Mr. LONG: Paragraph 92 deals with the determination of sale price for sales tax purposes. This matter was referred to on November 15, 1963, when the committee considered my follow-up report on the committee's 1961 report to the House of Commons.

It will be noted that the public accounts committee went on record in 1961 that they believed the existing method of valuation should be provided with statutory sanction. However, no action has been taken yet to provide such statutory authority.

It may be of interest to the members to know that this recommendation was made in 1955 by the special sales tax committee appointed in that year under the chairmanship of Mr. Kenneth Le M. Carter, F.C.A., to review and advise upon certain technical questions relating to the administration of sales tax. In their report dated January 12, 1956, the committee stated:

The act does not appear to authorize the minister to vary actual selling prices or to impute wholesale prices where they do not exist.

With respect to this, the committee recommended that the existing scheme of valuation be continued for the present with statutory sanction.

It is stated in the note that the audit office is of the opinion that the royal commission on taxation established on September 25, 1962 has terms of reference sufficiently broad to permit consideration of this matter. The deputy minister of customs and excise has also expressed the view that he believes this to be under consideration by the royal commission on taxation.

Mr. WINCH: I am most interested in this paragraph 92 and I think that what I have in mind will come under here. I would like to request that paragraph 92 either stand, or that it be determined now that we shall have before us the deputy minister responsible for the administration of the sales tax. I say that, sir, because I have now completed what I think is about one year's study of certain angles of this determination of sale price for sales tax purposes, and I deem it of such importance that I would like to have the committee give a most thorough examination to this, because I think I am sufficiently prepared to be able to prove that for 40 years the department has been following a practice which not only is not permitted by the act on sales tax but that there are two court decisions that it was illegal, and yet the practice is still continuing. I think it is in line with what was mentioned by Mr. Regan a few moments ago. This is a matter of a very serious nature and this is the only place in which I can raise it. I would like therefore to give notice that I would like the permission of the committee to go into this matter in a great deal of detail at some future meeting.

The CHAIRMAN: I may say that when we considered it in the follow-up report last year, we did not complete our study then because we did think we would have the deputy minister of national revenue before us, but unfortunately time did not permit it.

Mr. WINCH: As it is a most complex matter, it has taken me over six months to study it, perhaps I should get in touch with the Auditor General so he can get a clear idea of what I have in mind.

Mr. HENDERSON: That would be most helpful. I might add that while our comment here indicated that it was thought the royal commission on taxation, of which incidentally the same Mr. Carter is the chairman, had had this matter under consideration, it is my understanding at the present time that this is not being considered by the royal commission.

Mr. WINCH: I do not want to go into it now but I want to make it clear, so that there will be no misunderstanding, that I am in agreement with what the department has been doing, but when they have been doing something without the authority of parliament and have been doing it for over 40 years although there are two court decisions against it, then I think it is a matter for the public accounts committee to go into in detail.

The CHAIRMAN: Mr. Winch has suggested that this matter might stand until we have the opportunity to discuss it with the deputy minister of national revenue. That would be the appropriate department, would it not?

Mr. HENDERSON: Yes, the customs and excise division.

Mr. SCOTT: Who did you want to have called, the head of the customs and excise division?

Mr. WINCH: Whoever is in charge of doing something on the federal sales tax when the law says it cannot be done and two courts say it cannot be done and they are still doing it.

The CHAIRMAN: We will see that it is placed before the Department of National Revenue.

Mr. WINCH: I think the practice is right but let us get the authority of parliament for doing it.

The CHAIRMAN: Is it agreed that we stand it under those conditions? We will now go on to paragraph 93. It reads:

93. *Reporting of remissions.* Section 22 of the Financial Administration Act empowers the governor in council, on the recommendation of the treasury board, "whenever he considers it in the public interest", to remit any "tax, fee or penalty", and further provides, in subsection (8) that:

A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the public accounts.

Since this act came into force in 1952 it has been the practice to report remissions with an annual total of \$1,000 or more in the form of a listing of names of recipients and annual amounts in the public accounts. This is a continuation of the practice previously followed by the Auditor General pursuant to the requirement contained in the Consolidated Revenue and Audit Act, 1931, that "the Auditor General shall call attention to every case in which . . . a refund or remission of any tax, duty or toll has been made on the authority of any act of parliament".

This was used as a precedent but we believe that subsection (8) of section 22 of the Financial Administration Act, quoted above, in calling for "a statement of each remission" (a "statement" was not called for by the earlier act) contemplates the inclusion of a comment giving the particulars with respect to each remission—as is presently done in the cases of remissions to charitable, educational or other non-profit organizations. We feel that explanatory statements are essential if parliament is to have a clear understanding of the nature of the remissions.

An illustration of the inadequacy of the present method of listing remissions is given in the following paragraph.

Mr. LONG: Paragraph 93 deals with reporting of remissions. This note in 1962 expressed our view that explanatory statements, called for by subsection (8) of section 22 of the Financial Administration Act should be provided in the public accounts of Canada with respect to each remission in excess of \$1,000 granted during the fiscal year. This is essential if parliament is to have a clear understanding of the nature of remissions. As I mentioned at the time we were considering the follow-up report, we were pleased to say in our 1963 report under paragraph 75 that the Department of National Revenue took note of this observation in the 1962 report and accordingly reported remissions granted in 1962-63 in greater detail than in previous years, along with explanations enabling the reader to determine the manner in which the remission prerogative was exercised.

Mr. HENDERSON: This was a case where the recommendation contained in my report was in fact adopted the following year, and I was happy to tell you of this at the time we considered the follow-up report. Presumably, you would not wish to spend any time on this.

The CHAIRMAN: Is there any discussion on this? If not, can we pass on to paragraph 94, as follows.

94. *Remission of sales tax on oleomargarine.* At the time of the negotiations leading up to the entry of Newfoundland into confederation in 1949, the following undertaking was given to the Newfoundland delegation with respect to sales tax on oleomargarine:

The Canadian government will be prepared to submit to parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada.

There has been no such legislation but the governor in council, on the recommendation of the treasury board, has followed the practice of remitting, under the authority provided by section 22 of the Financial Administration Act, the sales tax on all oleomargarine sold in the province of Newfoundland.

The remissions thus granted, when in excess of \$1,000 in a year for each manufacturer, are included in the public accounts' listing of remissions (public accounts, Volume II, section 37), referred to in the preceding paragraph, under the names of the manufacturers concerned, but there are no statements to indicate that the remissions are in respect of tax on sales of oleomargarine in Newfoundland. In other words, there is no indication that the discretionary authority provided the executive by the section referred to above has been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

Mr. LONG: Paragraph 94 deals with remission of sales tax on oleomargarine. The details given here respecting this particular remission, pointed up the inadequacy of the old method of showing remissions in the public accounts.

However, there is a further point suggested by our note here and that is the question of rendering a tax, applicable elsewhere in Canada, completely inoperative in one province, a subject members of the committee might care to discuss.

The CHAIRMAN: Is there any discussion on this?

Mr. SCOTT: How can they do this?

Mr. CAMERON (*High Park*): They made the improvement in this particular remission so as to give us more details.

Mr. HENDERSON: Yes. It is disclosed this year; you can see in the public accounts what is taking place, but at the time this particular note went into our 1962 report we were arguing the case for that disclosure, and this was a good example of the sort of thing which would be brought to light.

Mr. SCOTT: It seems to me that this is a case where a discretionary authority has been used in a legislative sense. Discretionary authority is now being exercised in effect in a legislative capacity. What they neglected or declined to do by legislation they mean to do by discretionary authority. This again is a dangerous principle to which to accede to, and perhaps the committee should consider making a pretty strong recommendation that they change the legislation or desist from what I think is a misuse of the discretionary power.

Mr. RYAN: Certainly the undertaking has not been carried out to submit parliament with appropriate legislation.

Mr. SCOTT: I cannot understand why.

The CHAIRMAN: Is there any further discussion on this?

Mr. HALES: Maybe we would include this with the other recommendation under the principle which Mr. Scott has been speaking about.

The CHAIRMAN: This is a good idea.

Mr. LONG: There is a little complication here and I am not sure that members are aware of it. At the time this undertaking was made we did not have margarine in Canada, but we now have it and it is subject to a sales tax, so there undoubtedly is a problem there. It is being remitted on all the margarine sold.

Mr. RYAN: It is a 15 year old undertaking.

The CHAIRMAN: We are now on paragraph 95, which reads:

95. *Access to taxation collection files refused.* In December 1961 the treasury board approved the withholding of amounts payable to three taxpayers to be applied towards reduction of their indebtedness to the crown with respect to income tax for the years 1954 to 1960. As such a step indicated a failure of normal collection procedure, we requested the relative head office collection files for audit examination. On the instructions of the Minister of National Revenue these files were not made available to us by the taxation division and we were informed that the minister intended seeking the opinion of the Department of Justice with respect to our right of access to such files. Up to the date of this report we have not been advised regarding any such opinion although we directed enquiries to the taxation division on two subsequent occasions.

Our request for access to the files in question was based upon section 66 of the Financial Administration Act, subsection (1) of which reads as follows:

Notwithstanding any act, the Auditor General is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and he is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

In paragraph 7 of this report, reference is made to the statutory responsibility resting on the Auditor General to ascertain that "all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue". It is for this reason that examination of collection files is an integral part of our audit in any department whose operations result in moneys accruing to the crown.

Mr. LONG: Paragraph 95 deals with access to taxation collection files refused. The subject matter of this note was discussed by the committee in February, 1963 and dealt with by the committee in its final report to the house on February 5, 1963 when the files in question were made available to the Auditor General.

Mr. HENDERSON: There is no point in discussing this one.

The CHAIRMAN: We are now on paragraph 96.

96. *Questionable charge to Vote 306.* This vote, which provided funds for the national museum of Canada, was charged with an outlay of \$5,000 in connection with a preliminary investigation into proposed archaeological work associated with the salvage program being carried out under UNESCO leadership, for the preservation of artistic and historical treasures in that part of Egyptian and Sudanese Nubia which will be flooded by the lake formed by construction of the High Aswan dam. Canada's proposed contribution would be an expedition, sponsored by the national museum and a Canadian university, to search for relics of prehistoric man in the area.

As the duties, powers and function listed in the Department of Northern Affairs and National Resources Act, 1953-54, c. 4, restrict work in the archeological field to Canada, the regularity of the charge made to Vote 306, in connection with the Nubian salvage program, seems questionable.

Mr. HENDERSON: Paragraph 96, Mr. Chairman, is a case where the Department of Northern Affairs and National Resources, under their act which restricts work in the archaeological field to Canada, was extended to take care of an outlay of \$5,000 paid in connection with work in Egypt. Vote 120A of the supplementary estimates for 1962-63 extended the purposes of the national museum appropriation for that year to include payments with the approval of the governor in council in respect of archaeological investigation in Egypt in connection with Canada's participation with UNESCO in preserving Nubian antiquities. You will appreciate it is my responsibility to report cases of this type to you, although the amount in this instance was not large.

The CHAIRMAN: Are there any questions on this?

Mr. TARDIF: Do they specify at what time they want to go on this expedition? I presume it is during the holiday season.

Mr. HENDERSON: I do not think I have that record, but I think it was a contribution towards UNESCO's team. Whether it was during the holiday season, I do not know.

The CHAIRMAN: As long as it was not in the parliament recess for the year 1964. Are there any further questions?

Gentlemen, it is now 11 o'clock, which is the witching hour we fixed upon for our adjournment. The meeting is adjourned until 9:30 a.m. on Tuesday.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 6

Public Accounts, Volumes I, II and III (1962)
Report of the Auditor General to the House of Commons—1962

TUESDAY, JUNE 16, 1964

WITNESS:
Mr. A. M. Henderson, Auditor General of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,	Grafftey,	Rinfret,
Beaulé,	Gray,	Rochon,
Berger,	Hales,	Rock,
Cameron (<i>High Park</i>),	Harkness,	Rondeau,
Cameron (<i>Nanaimo-</i>	Lessard (<i>Saint-Henri</i>),	Ryan,
<i>Cowichan-The Islands</i>),	Loiselle,	Scott,
Cardiff,	Mandziuk,	Skoreyko,
Chaplin,	McLean (<i>Charlotte</i>),	Smith,
Côté (<i>Chicoutimi</i>),	McMillan,	Southam,
Crouse,	McNulty,	Stefanson,
Drouin,	Muir (<i>Lisgar</i>),	Tucker,
Dubé,	O'Keefe,	Valade,
Fane,	Pigeon,	Wahn,
Forbes,	Pilon,	Whelan,
Francis,	Regan,	Winch—50.
Frenette,	Richard,	
Gendron,	Ricard,	

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, June 16, 1964

(7)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Côté (*Chicoutimi*), Fane, Forbes, Hales, Harkness, Lessard (*Saint-Henri*), Loïselle, McLean (*Charlotte*), McMillan, Pilon, Ricard, Rinfret, Rock, Southam, Stefan-son, Tardif, Wahn, Winch (21).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Laroche, Crowley, Chapman, Millar, Douglas and Smith of the Auditor General's office.

The Chairman tabled copies of "Report of Surplus" and "Offer Form" (tenders) supplied by Crown Assets Disposal Corporation which were distributed to members of the Committee. It was agreed that these forms be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix*)

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

Mr. Henderson reviewed paragraphs 97 to 140 inclusive, including the Summary of Assets and Liabilities, and was questioned thereon, assisted by Messrs. Smith and Long.

Paragraph 98 was allowed to stand on the suggestion of Mr. Hales.

On paragraph 103, *War Veterans Allowances*, Mr. Baldwin referred to a letter he received from Mr. W. T. Cromb, Chairman of the War Veterans Allowance Board, dated November 27, 1963. The Chairman suggested Mr. Cromb be called later when this item will be considered during the review of the 1963 report of the Auditor General.

It was agreed to defer consideration of paragraphs 101, 103, 106, 107, 108 and 114 until the Committee reviewed the 1963 Report of the Auditor General.

On paragraph 115, *Non-productive payments*, the Chairman suggested that the Steering Committee study this matter to determine the witnesses to be called to elaborate on these payments.

The questioning of Mr. Henderson still continuing, at 10.55 a.m., the Committee adjourned until 9.30 a.m. on Thursday, June 18, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 16, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. We will now come to order and continue our deliberations. I believe we adjourned our last meeting after having considered paragraph 96 of the 1962 Auditor General's report. We shall now proceed with our consideration of paragraph 97, but before doing so I should like to mention the fact that I have a number of declarations and reports that Mr. Richard, president of Crown Assets Disposal Corporation, said he would make available to us. I am going to ask that these be distributed to the members of this committee and that we have one of each printed as an appendix to our Minutes of Proceedings and Evidence. These will be distributed to you in order that you will have a copy in your files for examination.

Mr. Henderson we will now consider paragraph 97.

97. *Rural mail boxes.* For many years the post office department has provided mail boxes to its rural patrons at a price of four dollars each. The cost of manufacture and distribution of these mail boxes has steadily increased, with the result that the department now absorbs a considerable loss on each box sold. The cost of manufacture, which was \$2.85 in 1950, had increased to \$5.21 by 1961, and the addition of shipping, handling, storage and distribution charges would bring the total unit cost to approximately \$7.50. In 1961-62, 18,310 mail boxes were sold, resulting in a loss to the department of approximately \$64,000.

Mr. A. M. HENDERSON (*Auditor General*): Continuing with the report, Mr. Chairman, we come next to paragraph 97 appearing on page 43 of the 1962 report. The subject matter of this note shows that rural mail boxes which were being sold by the Post Office Department for \$4 each were in point of fact costing something in the order of \$7.50 to have manufactured. I would mention, however, that this situation has since been effectively dealt with by the Post Office Department itself because on April 1 of this year it quit the business of having these rural mail boxes manufactured and distributed.

It may be of interest to the members of this committee to know that retail stores are currently retailing these mail boxes at more than twice the price formerly charged by the Post Office Department and, therefore, the loss to which I refer will not occur in future.

Mr. FORBES: This is another indication of the farmers being treated badly again.

The CHAIRMAN: This subsidy has been discontinued.

Mr. FORBES: If the farmers are not caught on income tax they are caught in respect of mail boxes.

The CHAIRMAN: This paragraph has been disposed of now.

We shall now consider paragraph 98.

98. *Departmental publication printed without requisite treasury board authority.* An Executive directive issued in 1951 permits the queen's printer to accept requisitions for printing publications estimated to cost

in excess of \$5,000 only when such requisitions have been approved by the treasury board either specifically or as part of a publications program.

In accordance with the foregoing requirement, treasury board authority was sought in April 1961 for the printing of 3,000 copies, to be sold at \$5 per copy, of a publication entitled "Langage et Traduction" at an estimated cost of \$8,000. The publication was to consist of a compilation of notes on translation prepared by a senior officer of the Bureau for Translations of the Department of the Secretary of State. The treasury board did not approve of the proposal, concluding that it was not in the public interest to expend crown funds on a publication of this nature.

Despite this injunction, however, the Department of Public Printing and Stationery proceeded to print 800 copies of the publication at a cost which, for the reduced quantity, was expected to approximate \$4,000 but which, in fact, reached \$7,000. As the \$5,000 limit had been exceeded it was necessary to obtain ex post facto authority from treasury board for the printing of the publication and this was given on March 29, 1962.

Mr. HENDERSON: My comments appearing in paragraph 98 explain the circumstances under which the queen's printer proceeded with the production of a publication notwithstanding the treasury board's ruling that it was in the public interest to spend public funds on a publication of this nature. As it turned out when we checked the outcome of this matter last December the demand was such that 4,800 copies were printed at a cost of \$14,036 while sales of only 2,900 copies to that date had realized \$15,800. I do not know whether or not any of the members have questions in respect of this item but it does point out the unrealistic nature of transactions of this type.

Mr. HALES: Mr. Chairman, I wonder whether we could leave paragraph 98 open for further discussion as I should like to ask several questions at a later time. I am not prepared to do so this morning.

The CHAIRMAN: I do not think there will be any objection to that suggestion, Mr. Hales.

We will now consider paragraph 99.

99. *Payment of maintenance expenses of Civil Service Recreational Association Centre.* The policy that grants or other forms of financial assistance to non-governmental organizations are made only from parliamentary appropriations specifically provided or clearly intended for such purposes is one of long standing. Attention is therefore drawn to the following instance where the Department of Public Works extended financial assistance to the Civil Service Recreational Association of Ottawa although neither the text of the vote involved nor the related details of services contained any reference to the assistance.

The association, which was incorporated in 1941 for the purpose of providing athletic and other recreational facilities for its membership, constructed a centre, which was opened officially in October 1959 and acts as the operating hub of its activities. In February 1961 the Department of Public Works was authorized by the treasury board to assume the cost of maintenance of the centre, effective April 1, 1961, and during the ensuing year costs of approximately \$25,000 were incurred for lighting, heating, water, snow removal, and repairs and upkeep, and charged to the appropriation for "Maintenance and Operation of Public Buildings and Grounds" (Vote 344).

Mr. HENDERSON: As the note says, this involved financial assistance provided to a non-government organization without specific provision being made for such assistance in the appropriation involved. That is to say Vote 344 entitled "Maintenance and Operation of Public Buildings and Grounds" did not provide specifically for this assistance. In my 1963 report under paragraph 79 at page 49, I refer to this same situation and perhaps we should dispose of that paragraph at the same time, Mr. Chairman.

The CHAIRMAN: Yes. Paragraph 79 follows:

79. *Payment of maintenance expenses of Civil Service Recreational Association Centre.* In last year's report (paragraph 99) attention was drawn to financial assistance of approximately \$25,000 extended in the form of maintenance services rendered by the Department of Public Works to the recreational centre operated by the Civil Service Recreational Association, a privately managed staff organization at Ottawa, which provides athletic and other recreational facilities for its membership. The assistance was given with the concurrence of the treasury board, although neither the text of the appropriation involved nor the related details of services contained any reference to the assistance. It was pointed out last year that this was contrary to the long-standing policy that grants or other forms of financial assistance to non-governmental organizations are made only from parliamentary appropriations specifically provided or clearly intended for such purpose.

During the year under review the public works appropriation for "Maintenance and Operation of Public Buildings and Grounds" (Vote 75) was charged with costs of approximately \$31,600 in respect of lighting, heating, water, and repairs and upkeep in connection with the centre, while the appropriation for "Improvements Generally" (Vote 70) was used to meet the cost of \$1,345 incurred for grounds maintenance. In neither instance did the text of the appropriation nor the associated details of services refer to the assistance to be thus provided.

Mr. HENDERSON: In that paragraph I draw attention again to the continuation of this practice, the amount for the 1962-63 year being approximately \$33,000. The vote text for the corresponding appropriation for the 1963-64 fiscal year was extended through the medium of an item in the supplementary estimates, to provide for the maintenance and operation of public buildings and grounds, to extend the purposes of Vote 75 of the main estimates for 1963-64 to include the W. Clifford Clark Memorial Centre in Ottawa. Specific provision for the same purpose is contained in the 1964-65 appropriations (Vote 5).

The CHAIRMAN: Are there any questions in respect of this particular item?

Mr. HALES: There is apparently no ceiling on the amount of money given for this purpose. The item just states that it is for the operation and maintenance of public buildings and grounds but does not refer to a ceiling.

Mr. HENDERSON: Until this comment appeared in the report there was no indication in the vote wording to the effect that it was planned to include this non-government assistance. This is a non-government organization which charges fees for membership. However, in 1963-64 the words I have referred to were added to include the W. Clifford Clark Memorial Centre in Ottawa. The cost of the work that is done here will presumably vary within certain ranges. The amount was \$25,000 in 1961 and has gone up now to \$33,000. What is the nature of the work done in this regard, Mr. Smith? Does it not include maintenance of the grounds?

Mr. D. A. SMITH (*Supervisor—Auditor General's Branch*): This item relates to the provision of heating, lighting and power but not to cleaning, and to the maintenance of the grounds and general repair work inside the centre.

Mr. FORBES: Who owns this building?

Mr. SMITH: This building is owned by the Civil Service Recreational Association.

Mr. FORBES: Why does that association receive a grant of \$25,000 for maintenance? This is a private building for recreational purposes and I do not understand why the government is subsidizing that association to the extent of \$25,000. I think this situation is worse than that in respect of the mail boxes.

Mr. HENDERSON: This was one of the points that I raised. I have here the annual report of the association for the year 1961-62 which shows that the operating profit for that year was \$15,856 without presumably including the things paid for by the government. The association charges fees for membership and according to their certified accounts for that year their income from membership fees, cafeterias, canteens and so forth exceeded their expenditures by \$15,856.

Mr. WAHN: Mr. Chairman, I should like to point out that the situation has not been improving and in view of the fact that centre is not publicly owned the addition of the words which the Auditor General mentioned will not improve the situation either. As I understand the situation the vote is for the maintenance and operation of public buildings and grounds and a building owned by a private recreational association certainly cannot be considered to be publicly owned.

Mr. HENDERSON: By the addition of the words I have quoted to the text of the vote parliament will be advised of the nature of the buildings that are going to be included and consequently approval might then be said to cover the cost of the upkeep of this particular building.

Mr. WAHN: I think the wording is misleading because it perhaps suggests that the building is publicly owned whereas in fact it is privately owned.

Mr. HENDERSON: Yes. I think you have made a good point.

The CHAIRMAN: Perhaps I could interject at this moment for the purpose of advising those members of this committee who have just arrived that we are now dealing with paragraph 99 of the 1962 Auditor General's report, as well as paragraph 79 covering the same item as it appears in the 1963 Auditor General's report.

Mr. SOUTHAM: There is one other thing that occurs to me in respect of paragraph 99. This paragraph refers to one specific expense involving a civil service organization. I think a continuation of this practice will lead to the establishment of a dangerous precedent because civil service organizations in other areas when they become aware of this practice will likely make application and expect to receive the same kind of treatment.

Mr. HENDERSON: This is an organization which charges fees to its members and provides benefits. Presumably it is intended to be a non-profit making organization but as a result of its financial position at the end of the year to which I referred I felt I should bring this situation to the attention of the members of the committee.

Mr. FORBES: Apparently this organization is being subsidized by the government.

Mr. HENDERSON: Yes.

Mr. FORBES: What possible reason could the government have for assisting this association in the construction and maintenance of a recreational facility? We all know that some civil servants belong to the Hunt Club but I should not think that organization is eligible for a grant on the same basis.

Mr. TARDIF: Surely there is a responsibility on this employer to its employees as there is in respect of private industry. If this organization is not

subsidized to some extent by the employer that responsibility will fall on the city. Why should the taxpayers in the city of Ottawa subsidize civil servants even though they form the major proportion of the population? I personally feel that this amount is being provided because of responsibility on the part of the employer to the employee.

Mr. FORBES: I do not believe that either the city or the government has any responsibility in respect of a recreational centre for employees.

Mr. TARDIF: Mr. Chairman, surely an employer has responsibility in respect of the welfare of his employees, whether the employer be in private industry or government. The dominion government has a greater responsibility because of the fact it has a greater number of employees concentrated in a smaller section of the country.

Mr. FORBES: Would you suggest Mr. Tardif that the federal government should construct a recreational centre here for you and other members so that we can curl, swim and so on?

Mr. TARDIF: I would make that suggestion but it would not be popular in my riding.

The CHAIRMAN: Are there any further comments in respect of paragraph 99 and paragraph 79 of the 1963 report?

Shall we now move to a consideration of paragraph 100?

Mr. HALES: Before we move on Mr. Chairman, I think that if we are going to leave the situation as it now exists we should make some recommendation regarding a ceiling on the amount to be granted.

The CHAIRMAN: Yes.

Mr. McMILLAN: Mr. Chairman, are we now considering paragraph 100?

The CHAIRMAN: We are now considering paragraph 100.

Mr. WINCH: In respect of this civil servants recreational association what are the qualifications for membership? Is membership restricted in any way?

Mr. HENDERSON: I do not believe membership is restricted.

Mr. TARDIF: Any one who is employed by the civil service can belong to that association, and the members of the family of members can belong. A great number of individuals enjoy the facilities provided by this association and the amount of money that the federal government contributes is very negligible in comparison to the service rendered.

Mr. WINCH: The point I was making is that there might be a difference in my attitude toward this contribution if membership was restricted to a particular class of civil servant. It would be an entirely different situation if membership is open to all civil servants at every wage level.

Mr. HENDERSON: I understand membership is open to all civil servants. It is commonly known that this association carries out excellent work and provides excellent facilities. The basis of my criticism here lies in the fact that this contribution was not authorized under the vote, but perhaps by the change to be made in the wording of the vote you may or may not feel that what is to be done commends itself to you as an effective departure from proper practice.

Mr. TARDIF: Unless changes have been made during the last year the fee charged to members is fifty cents per year and \$6 per year for a family unit. For that fee the association provides swimming facilities, bowling, recreational halls, meeting halls, libraries and many other services. I suggest that it would be a good idea for the members of this committee to visit the centre at some time.

Mr. HENDERSON: Mr. Long informs me that it is his belief that the fee is 25 cents per month.

Mr. TARDIF: I am a member of the association and last year I paid \$6 for my family. I know that individual members last year paid 50 cents for membership.

Mr. HENDERSON: I have before me the annual report of the association for 1961-62.

Mr. TARDIF: I think the 25 cents per month covers the fee for a family. Certainly the fee is not very high.

The CHAIRMAN: Are there any further questions in respect of this paragraph?

Shall we now consider paragraph 100?

Dr. McMILLAN, I think you had a question regarding this paragraph, which reads:

100. *Route facility fees receivable from airlines.* Reference is made to the comments on this subject contained in paragraph 79 of last year's report where it was mentioned that ten airlines were indebted to the Department of Transport to a total \$1,284,000.

During the year under review, resistance to the payment of the route facility fee continued to be encountered by the department, with most of the airlines which had originally paid the fee having stopped doing so. At March 31, 1962 the records of the department showed that 17 airlines owed amounts totalling \$3,239,000. Legal action has been instituted against two of the major airlines involved.

Mr. McMILLAN: What were the results of the legal actions instituted two years ago as referred to in this paragraph? Was any of the money involved collected from the two major air lines?

Mr. HENDERSON: I do not believe any of the money was collected. Is that a correct statement, Mr. Smith?

Mr. SMITH: The legal action was discontinued on the advice of the Department of Justice which indicated that the regulations under which the fees were being assessed were not valid.

Mr. HENDERSON: The amount of money involved increased to \$5,500,000 as of March 31, 1963 with 22 air lines involved. The Department of Justice, however, doubted the legal validity of the regulations under which the fee was being assessed, and an order in council last October authorized the remission of fees paid or payable.

Members may recall that last December the Minister of Transport introduced a measure, Bill No. C-117, an act to amend the Aeronautics Act which in part was intended to provide authority for the charging of such fees. I do not believe that measure has been proceeded with yet.

Mr. HARKNESS: The air lines involved are mainly foreign air lines; is that right?

Mr. HENDERSON: Yes, that is correct. This involved air lines operating aircraft across the country.

Mr. CARDIFF: Why is it that some air lines have paid these charges while others have not? You indicate in this paragraph that there are 17 air lines involved owing an amount totaling \$3,239,000.

Mr. HENDERSON: As of March 31, 1963, that figure has risen to \$5,500,000 with 22 air lines involved. Some air lines have made payments.

Mr. CARDIFF: Some air lines have made payments while others have not, and yet others have stopped making payments altogether.

Mr. HENDERSON: The order in council to which I referred authorized the remission of moneys paid by those air lines. The government intends to introduce legislation designed to put this situation on a different footing.

Mr. CARDIFF: If one air line is required to pay this fee, then they all should be required to pay it.

Mr. HARKNESS: The basic situation involved the Department of Justice indication that there was no real authority for collecting these fees as I understand it.

Mr. HENDERSON: The Department of Justice questioned the validity of the regulation.

Mr. HARKNESS: Therefore the money collected was paid back to the air lines; is that right?

Mr. HENDERSON: That money was remitted to them.

Mr. HARKNESS: This is not then really a collectable debt under these circumstances?

Mr. HENDERSON: That is right.

Mr. HARKNESS: Why do you make reference to it in your paragraph?

Mr. HENDERSON: The amount was considered to be collectable at the time this report was written. As of March 31, 1962 the Department of Justice had not delivered itself of any ruling on the matter and this amount stood as a debt and was so recorded in the books. As of March 31, 1963, the same situation prevailed and the debts then amounted to \$5,500,000. In October of last year this order in council was passed, presumably as a result of the view of the Department of Justice, and it constituted authority for the remission of the fees paid to the air line companies who had paid them. Two or three months after that, in December, the Minister of Justice introduced a measure in the House of Commons dealing with this situation but that measure was not proceeded with at that time.

Mr. HARKNESS: I suppose this situation resulted from the fact that under international air agreements foreign companies considered that there was no legal right on the part of Canada to collect this money?

Mr. HENDERSON: I think that is correct, sir. The air line companies protested and engaged legal counsel. The larger international air carriers were the principal companies opposing the collection of this fee as I recall.

Mr. McMILLAN: Do our air line companies pay for similar services in foreign countries?

Mr. HENDERSON: I do not have an immediate answer to that question. Do you know the answer, Mr. Smith?

Mr. SMITH: I do not have an immediate answer to the question either but I do know two or three years ago Britain considered the matter of assessing a charge. Whether Britain proceeded with that measure or not I do not know.

The CHAIRMAN: So that the record will be complete Mr. Henderson, I should state that the legislation to which you referred was introduced last December but was not passed.

Mr. HENDERSON: I do not think the government has completed this matter by any means.

The CHAIRMAN: I believe the session ended before that measure could be considered.

Mr. HENDERSON: That is right: I believe the government intends to bring this situation to conclusion.

Mr. WINCH: As far as this committee is concerned there is no real problem involved?

Mr. HENDERSON: That is correct, sir.

The CHAIRMAN: May we now move to a consideration of paragraph 101?

101. *Expenditure incurred without Treasury Board approval.* The Department of Transport obtained treasury board approval to enter into a contract for the supply and installation of furnishings for the public areas of the terminal building at the Montreal Airport at a cost of \$475,000. The accepted tender included \$35,000 for a work of sculpture to be located in the lobby of the building. When provision for this work was cancelled the department used the resulting saving to order extras in the form of additional drapes and other furnishings not provided for in the original specifications. In doing so it took the stand that, because the total cost incurred was within the financial bounds set by the original treasury board authority, it was unnecessary to seek the board's approval for the procurement of the extras.

On communicating with the secretary of the treasury board, we were informed that "the deletion of the work of sculpture involved a significant change in scope of the proposed furnishing program and not a substitution of one item for a comparable item", and that the saving arising from the deletion of the work of sculpture should not have been used for the extra items. The department has advised us that it does not share this view.

Mr. HENDERSON: This paragraph relates to the manner in which the Department of Transport, on the cancellation by treasury board of provision for a work of sculpture for the Montreal international airport, used the resulting saving to obtain extras in the form of additional furnishings not provided for in the original specifications. As the note describes the treasury board was of the opinion that its authority should have been sought for the extra items under these circumstances, but the department did not agree and went ahead regardless. I felt this was a matter which should be brought to the attention of the members of this committee although there is little that can be done about it at this stage.

Mr. TARDIF: I think this is a very irregular way of doing things.

Mr. HENDERSON: That is the thought I had, sir.

Mr. TARDIF: Even though we cannot do anything about this particular situation at this time I think we should make some recommendation so that a similar situation will not occur again. I do not know the amount involved, and even though it may be small, we should make some recommendation or suggestion so that this situation will not reoccur. Under the present circumstances a department could propose an excessive estimate in respect of a specific project and then use the money for some other purpose.

Mr. HENDERSON: The amount involved in this item is \$35,000.

Mr. WINCH: I should like to know whether anyone can tell me if it is permissible for a department to overrule the treasury board?

Mr. HENDERSON: That is not usual, Mr. Winch. In this particular case a lengthy argument ensued and it will be quite clear to members how the treasury board made efforts to economize. This item represented a savings which the treasury board wished to effect.

Perhaps we can leave this paragraph in abeyance until we reach a consideration of the Montreal international airport as a whole, as referred to in the 1963 report, wherein we deal with the ultimate cost of that job.

This refers to one of the smaller items relating to that building. We will be considering the Montreal international airport construction costs when you examine the 1963 report.

The CHAIRMAN: Does that view commend itself to the members of this committee?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will reserve our right to deal with this subject when we reach our consideration of the 1963 report dealing with the Montreal international airport.

We will now consider paragraph 102.

102. *Inadequate recording of subsidy in the accounts.* In June 1959 the Department of Transport entered into a contract for the construction of a vehicular and passenger ferry at an estimated cost of \$1,113,578 for use, by charter, on the Bell Island-Portugal Cove, Newfoundland ferry service. The final cost of the vessel which was completed in the spring of 1960 and commenced operations in August of that year has not yet been determined, although costs of \$1,158,000 were recorded to March 31, 1962. With the approval of the governor in council the vessel, named the "John Guy", was chartered under an agreement dated September 8, 1960 to the Newfoundland Transportation Company Limited, operators of the Bell Island-Portugal Cove ferry service, for one year to August 15, 1961, and the agreement was subsequently extended for a further year and from year to year thereafter.

The rate of charter hire payable under the agreement is calculated as follows:

- (i) depreciation in accordance with the straight line method of 4 per cent per annum based upon the actual cost of construction of the vessel as determined by the minister, and
- (ii) interest at $5\frac{3}{4}\%$ per annum upon the unrecovered cost of the construction of the vessel as determined by the minister.

The charter hire fee payable, calculated on an interim cost for the vessel of \$1,200,000, for the year ended July 31, 1961 amounted to \$117,000 and for the period August 1, 1961 to March 31, 1962 it was \$75,354, or a total of \$192,354 to March 31, 1962.

On July 27, 1961 the treasury board approved the payment of subsidies of up to \$274,414 to the Newfoundland Transportation Company Limited for the period from August 1, 1960 to March 31, 1962, and at the same time waived payment of the charter hire fees of \$192,354 for the period. The amount actually paid by the Canadian Maritime Commission under this authority was \$274,385, and this amount was recorded as a charge to the appropriation for "Steamship Subventions for Coastal Services, as detailed in the Estimates" (Vote 450).

In the circumstances described it would have been more appropriate from the accounting point of view to have shown a gross subsidy of \$466,739 as a charge to the appropriation, and to have recorded the charter hire fee of \$192,354 as revenue. Moreover, such a presentation would have been consistent with that used in the Public Accounts in relation to the "Lord Selkirk" which has been chartered for several years to Northumberland Ferries Limited for the Prince Edward Island-Nova Scotia ferry service.

Mr. HENDERSON: This note describes the nature of the subsidy paid to the transportation company for the ferry service, but is critical of the manner in which the amount was shown in the public accounts. In other words, instead of the amount of \$274,385 being charged on a net basis to vote 450, the gross subsidy of \$466,739 should have been shown as a charge to this appropriation and the charter hire fee of \$192,354 recorded as revenue. We have a precedent here in the case of the *Lord Selkirk* chartered for many years for the Prince Edward Island-Nova Scotia ferry service.

This same practice was continued in 1962-63 when a net subsidy payment of \$150,200 was recorded. However, our criticism was met in 1963-64 when provision for a subsidy of \$279,050 was made in order to record the full subsidy and to credit revenue with the charter hire fee. Accordingly, as a result of our comments here, the recording, beginning in the years 1963-64, will be correctly made so that I think this is now on track.

Mr. WINCH: The matter has been satisfactorily handled.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will proceed to paragraph 103, which reads:

103. *War Veterans Allowances.* The War Veterans Allowance Act, R.S., c. 340, sets out the rates of allowances payable to veterans, widows and orphans eligible for assistance and prescribes that allowances paid, together with other income of the recipient, shall not exceed established ceilings. It also provides that applicants may not qualify for an allowance if they own personal property in excess of \$1,250 if eligible for single rates, or \$2,500 if eligible for married rates. The act empowers the minister, with the approval of the governor in council, to make regulations which among other things define "income", "casual earnings" and "personal property" for purposes of the act. Attention is now drawn to two anomalies in the application of this legislation:

1. "Personal property" as defined in the regulations includes cash in hand or in bank, negotiable bonds and marketable securities, but mortgages and agreements for sale are not mentioned. As a result, the allowance is made available to some whose sizeable holdings in mortgages and agreements for sale would preclude their qualifying for assistance were their assets in another form, for example negotiable bonds or securities. In an extreme case, an allowance was awarded an applicant who sold his fruit farm for \$30,000, taking \$9,000 cash (most of which was reinvested in a new home) and retaining a \$21,000 mortgage, repayable as to principal and interest at the rate of \$1,200 per annum.
2. The regulations prescribe that, for one year from the date of sale or until any of the money is used for a purpose other than to purchase another residence, whichever is earlier, the proceeds from the sale of a recipient's or applicant's residence up to an amount of \$9,000 is not personal property, and over that amount is income in the amount of 5 per cent of the excess. The purpose is to give the recipient or applicant who sells his home a reasonable opportunity to buy a new home without having his allowance cancelled or denied because of excessive personal property. In some cases, however, the purchase of a new residence takes place within a comparatively short period and the recipient is, therefore, while in possession of residual cash and personal property in excess of the maximum permitted under the act, continued on allowances until the anniversary date of the sale of the former residence.

The War Veterans Allowance Act and the supporting regulations provide for penalties by way of fine or imprisonment or both to any person who, for the purpose of obtaining an allowance, knowingly makes a false or misleading statement or fails to disclose any material fact or who, subsequent to becoming a recipient, fails to report immediately any pertinent information which might have a bearing upon the amount of the award. On the basis of a test examination of files during the year, 57 cases, most involving undisclosed income, in which there were false statements or failure to disclose material facts, were referred to the war veterans allowance board. In one case the recipient, on two occasions, had

failed to disclose material facts: on the first occasion the allowance was discontinued and an overpayment of \$1,077 established in 1954; and on the second occasion an overpayment of \$4,289 was established when it was disclosed in the audit that the veteran's wife had been employed almost continuously since shortly after the veteran again came on allowance in July 1957. In another case, a single veteran was granted the allowance in November 1961, along with a continuing monthly grant from the assistance fund, upon his statement that he was not working, that he had no prospects of employment and only \$50 in assets. In April 1962 the allowance was discontinued when the department discovered that the veteran was employed as a full time federal civil servant with a salary of \$6,540 and had been so at time of application—in fact since April 1960.

Following the practice of recent years, no legal action was taken to invoke the penalties provided by the act in any of the cases noted because it was considered that such action was uneconomic and accomplished little. Unless the act is amended to provide heavier penalties which the board is prepared to enforce, deliberate deceptions of this type can be expected to continue.

The legislation establishing war veterans allowances was predicated on the assumption that war veterans pre-age the general civilian population by some ten years. Thus, aside from providing assistance to those who because of physical or mental disabilities or economic hardships are unable to maintain themselves, its main purpose was to provide financial assistance to veterans of limited means at age 60 rather than at 70, the eligible age for an old age pension. In consequence, recipients on becoming eligible for the old age pension had their war veterans allowances adjusted downwards so that total annual income remained within the ceiling prescribed in the War Veterans Allowance Act.

There was a departure from this long-established principle when an amendment to the War Veterans Allowance Regulations, approved by the governor in council, directed that from February 1, 1962, \$10 of the old age pension be considered as exempt income for purposes of the War Veterans Allowance Act. This action was taken notwithstanding the fact that by amendment to the act, assented to on June 22, 1961, the maximum monthly allowances and the annual income ceilings of recipients had been increased by 20 per cent effective June 1, 1961. Consequently, this exemption of \$10 of old age pension had the effect of augmenting the income of a group of war veterans allowance recipients whose incomes had by statute been adjusted substantially just eight months previously.

The CHAIRMAN: In respect of paragraph 103, last year, in the expectation that this might be coming up, I was in touch with Mr. Cromb, the chairman of the war veterans board. He wrote a letter, addressed to me, dated November 27, 1963. This matter is brought up again in the 1963 report of the Auditor General and is dealt with quite extensively there, including the items referred to in his 1962 report. Possibly, with your approval, I might have this letter printed in due course and have comments from Mr. Henderson on the letter, so that when we come to the 1963 report the committee will have the benefit of the views of both parties. At that time I hope we will have Mr. Cromb here to discuss the matter.

Is that agreeable to the committee?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will now proceed to paragraph 104, as follows:

104. *Veterans hospitals and institutions.* Hospitals and institutions operated by the Department of Veterans Affairs, originally provided to take care of veterans requiring treatment for war service disabilities,

are at present being occupied to a considerable extent by domiciliary care cases and war veterans allowance recipients. The latter, who are provided treatment for all conditions, service-induced or otherwise, are for the most part insured under the various provincial hospital insurance plans. During 1961-62 domiciliary care patients and war veterans allowance recipients accounted for 40 per cent and 21 per cent, respectively, of all patient days in departmental hospitals and institutions whereas disability pensioners accounted for only 17 per cent. During the year the average per diem cost of maintaining patients in active treatment hospitals where 38 per cent of the occupied beds were taken up by domiciliary care cases was \$18.76 compared with \$9.63 in non-active treatment centres where occupancy is predominantly by domiciliary care cases.

The cost of operating departmental hospitals and institutions for the fiscal years 1956-57 and 1961-62 was \$34,596,693 and \$46,771,192, which, based on total in-patient days of 2,750,651 and 2,574,509, results in costs per in-patient day of \$12.58 and \$18.17—an increase during the five year period of 44.4%. In addition, capital expenditures, mainly for improvements and equipment, averaged approximately \$4.5 million per year during this period.

The introduction of provincial hospital insurance plans under which war veterans allowance recipients are insured, the declining numbers of pensionable disability cases being cared for in departmental hospitals, the rising cost of operating the hospitals and the increasing use of expensive active treatment facilities for housing domiciliary care cases, all indicate that a reappraisal of the department's role in the operation of hospitals would be desirable. We understand that this has been the subject of a detailed study carried out by the royal commission on government organization, although no report or recommendations have yet been made.

Mr. HENDERSON: This note on veterans' hospitals and institutions gives facts and figures regarding the cost to the Department of Veterans Affairs of operating the departmental hospitals and institutions, which over the five year period through 1961-62 has risen over 44 per cent. My comments here were supported by the results of the detailed studies carried out by the royal commission on government organization.

In my 1963 report, under paragraph 90 on page 58, I have updated this situation for the information of the house.

Subsequent to the tabling of the 1963 report last February, as you know, the Minister of Veterans Affairs has made a number of statements in the house and action has been taken toward implementing a number of the recommendations made by the commission. In view of this changing situation at the present time, you may not feel that any useful purpose would be served by calling witnesses. But, if there are any questions Mr. Douglas and I would be pleased to deal with them.

The CHAIRMAN: Are there any questions in respect of paragraph 104? If not, could we pass on to paragraph 105, which reads:

105. *Disposal of Veterans' Pavilion and surplus equipment, Ottawa.* Following the construction of the Defence Medical Centre in Ottawa, the Department of Veterans Affairs no longer required the veterans' pavilion which had been constructed some 20 years ago on the grounds of the Ottawa Civic hospital at a cost, including equipment, of approximately \$330,000.

The pavilion was built pursuant to an agreement between the Department of Veterans Affairs and the hospital trustees, approved by the governor in council in May 1942. This agreement was later replaced by a new agreement effective April 1, 1948, section 7 of which reads:

This agreement shall continue in full force and effect so long as may reasonably be required by the department, at the end of which time, or at such intervening date as may be agreed upon between the said parties, the department shall hand over to the trustees the said pavilion and such equipment as will not be further needed by the department, at an independent appraisal value, should the trustees so desire.

When approached by the department in 1961 the trustees expressed their unwillingness to purchase the pavilion at a price based on an independent appraisal (or, indeed, at any price), and the department eventually agreed to turn over the pavilion, including surplus equipment, to them at a nominal value of \$1. As the transfer was effected without referral to Crown Assets Disposal Corporation or approval by the governor in council, there is doubt as to its legality.

Mr. HENDERSON: In paragraph 105 we describe the circumstances under which the veterans' pavilion at the Ottawa Civic hospital was constructed 22 years ago on the grounds of the Ottawa Civic hospital at a cost of approximately \$330,000 and how, notwithstanding an agreement made in 1948 that the Department of Veterans Affairs would hand it over to the trustees at a price based on an independent appraisal, it was turned over to the trustees at a nominal value of \$1 in 1961.

Mr. TARDIF: Mr. Chairman, in my opinion, the statement which Mr. Henderson made is not quite correct because I was a member of the Civic hospital board at the time the agreement was made with the Department of Veterans Affairs when the possibility of this pavilion being turned over to the city was discussed. And, there was a need of a great deal of repairs on it at that time and there was a tentative intention by the department to demolish it. Because there was a great shortage of hospital beds at that time the department agreed to make some repairs on it and the hospital agreed to make some as well, with the understanding that in a period of time after the new wing would be added to the hospital proper and some arrangements were made to look after veteran patients that this pavilion would be turned over to the hospital for \$1, even though there was not an agreement on the original understanding when the pavilion was built.

Mr. HENDERSON: I think the point I make here is that the transfer was effected without reference to the crown assets corporation or approval by the governor in council, and we felt we must express doubts as to the legality of the transaction. We referred the matter to the deputy attorney general of Canada for an opinion, but this opinion was only received after this 1962 report was issued. In point of fact, on December 14, 1962, in his letter to me the deputy attorney general expressed the view that the transfer of the pavilion and equipment therein was lawful.

Mr. TARDIF: The only mistake that could have been made, if in fact there was one made, would be that the officials appointed by the Department of Veterans Affairs at that time to meet with the hospital board made the wrong deal. Although that could be, actually I know it was done in an orderly fashion because I was chairman of the finance committee at the Civic hospital at that time and I helped convince the department this should be the solution.

Mr. FORBES: Do you mean you took advantage of this situation?

Mr. TARDIF: I do not like the words "took advantage of", Mr. Chairman, and I hope you do not put that in the minutes; but that, in effect, is what I did.

The CHAIRMAN: In any event, the deputy attorney general approved your position.

Mr. WINCH: Mr. Tardif, are you censoring our transcripts before they come out?

Mr. TARDIF: That could be.

The CHAIRMAN: We will now proceed to paragraph 106, as follows:

106. *Employment of part time doctors by Department of Veterans Affairs.* Department of Veterans Affairs hospitals are staffed partially by full time medical personnel who are civil servants but to a considerably greater extent by medical practitioners, retained on a part time negotiated fee basis, whose terms of employment have never been clearly defined. The part time doctors have always insisted on their right to bill the patients they treat who have been admitted to the hospitals on a paying basis. This has caused a number of administrative problems, a major one being the status of the funds derived from the billing of these paying patients. The department, while permitting the doctors to make these billings, has encouraged them to use the proceeds for purposes that will benefit the hospitals in which they are employed.

The part time doctors hold the view that these receipts are not public moneys and the department sees some justification for this view in that (i) when their employment on the negotiated fee basis was first instituted, paying patients were almost unknown (it was only as the treatment regulations were broadened and the volume of paying patients became larger that the problem of fees for medical services arose); and (ii) the services which they provide in return for the fee paid to them by the department should be only in respect of patients for whom the department is responsible.

The department now proposes that the best solution to the problem is to create a special fund under its control to which will be credited the proceeds from billings for services rendered paying patients by the part time and also the full time doctors. The proceeds would be used for purposes specified by the department, including the purchase of books for the hospital library and payment of expenses incurred by the hospital staff while attending scientific or similar meetings of benefit to the hospital.

The audit office takes the view, however, that the funds derived from the treatment of paying patients are public moneys because (a) full time doctors are public servants, (b) there is no evidence that the annual negotiated fee for part time doctors is limited to services rendered to patients entitled to free treatment, and (c) moneys collected by these doctors arise from services undertaken in departmental hospitals using departmental facilities. We do not, therefore, consider that the department's proposal will meet the requirements of the Financial Administration Act regarding the disposition of public moneys.

We directed the matter to the attention of the treasury board and the general problem and the department's proposed solution are presently under study by the Board.

Mr. HENDERSON: Here we explain the basis on which part time doctors are employed in veterans affairs hospitals on a part time negotiated fee basis and at the same time are permitted to bill the paying patients they treat. The audit office view has been that the funds so derived from the treatment of paying patients are public moneys because there is no evidence that the annual

negotiated fee for part time doctors is limited to patients entitled to free treatment, and the moneys collected by these doctors arise from services undertaken in departmental hospitals using departmental facilities.

I deal with this situation again in paragraph 91 of my 1963 report at page 59.

As a result of my 1962 comments the governor in council acted in June, 1963, to leave the part time doctors in the position, however, of still being able to bill patients under the payments section. However, the arrangement in some respects is not administratively practical.

We will be glad to deal with any questions at this time or, in the alternative, the committee may feel that when it is considering my 1963 report they might like to call the director of medical services of the Department of Veterans Affairs before the committee.

Mr. WINCH: Mr. Chairman, I suggest that we follow that procedure.

The CHAIRMAN: Then we will leave this until the 1963 report is considered.

Mr. TARDIF: If you wish to leave it until the 1963 report is considered I do not disagree with that, but this agreement with the doctors at that time came about because there was a shortage of doctors and the doctors were in a position to make their own conditions. Because of that I think the department considered at that time this was one way of enticing the doctors to do the extra necessary work.

Mr. HENDERSON: Well, that is only part of the explanation we have, but when the matter comes up again we will be able to give you some further facts.

The CHAIRMAN: Is it agreeable to leave further discussion on this paragraph until it comes up again?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We shall now deal with paragraph 107, which reads:

107. *Awards under the Pension Act.* Paragraph 72 of the 1960 report referred to (1) the audit difficulty in determining whether or not certain payments made under the Pension Act, particularly those in respect of discretionary and compassionate awards, conformed to the authorizing provisions, (2) certain administrative practices which it was thought warranted parliamentary attention, and (3) apparent inconsistencies in the act.

The standing committee on public accounts after studying these comments recommended in its Fifth Report, 1961 (paragraph 62):

- (a) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority;
- (b) that in determining the amount of pension to be awarded dependent parents, the commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;
- (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian pension commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38).

After considering these recommendations the chairman of the pension commission advised the audit office concerning recommendation (a) above, that when the commission rules there is an overpayment this

is made a matter of record in the accounts and, if uncollectable, the amount is deleted therefrom only with appropriate statutory authority. However, no action has been taken to record and collect overpayments in the type of case referred to in the 1960 report (paragraph 72) as follows:

Since the amount awarded to an applicant in a dependent condition is based upon the additional income he requires to maintain himself, it follows that if the applicant had failed to disclose income, this would result in an overpayment. However, in a number of instances in which undisclosed income was noted and drawn to the attention of the commission, the pension was simply adjusted currently and no overpayment was considered as having occurred.

With respect to recommendation (b), the pertinent section of the act (section 38(6)) was amended in 1961 to provide that the commission might deem any children residing with the "dependent parent" to be contributing to his or her support not less than \$10 a month, but the commission feels that there is no obligation for them to take into account the ability of other children to assist and no cases were observed where this was done.

Concerning recommendation (c), the commission reports that it has carefully considered the legality of cases where one death results in more than one pension and is of the opinion that such payments are legal and in accord with the act. It pointed out that the present section 40 was contained in the original act of 1919 and has continued unchanged since then although certain other sections, such as 38(2), were inserted to make provision for classes which were otherwise excluded. The commission is of the opinion that, as the act provides definite authority for these pensions, the general directions of section 40 could not be considered to fetter sections 26, 37 or 38. It would seem that consideration should be given to amending the legislation with a view to eliminating these inconsistencies.

Mr. HENDERSON: Paragraph 107 shows how this committee in its fifth report, 1961, made certain recommendations designed to improve this administration.

However, in my 1963 report, where I dealt with it again under paragraph 92, you will have noted that no satisfactory action has been taken on the committee's recommendations and that the defects and inconsistencies noted have in fact increased.

It is not clear to us if decisions of the type described in these notes are in accord with the intent of parliament and, again, when we consider the 1963 report you may wish to call the chairman of the Canadian pension commission as a witness.

The CHAIRMAN: For the record, Mr. Henderson, in what paragraph is it considered in 1963?

Mr. HENDERSON: Paragraph 92, beginning at page 60.

The CHAIRMAN: Shall we follow the same procedure, gentlemen and leave this paragraph until we come to the 1963 report?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Paragraph 108 is next.

108. *Educational leave costs.* The practice of granting educational leave to employees, without special funds having been provided by parliament for the purpose, was referred to in last year's report (paragraph 82).

It is again suggested that educational leave costs, including salaries, non accountable allowances in lieu of salary, living allowances, tuition fees, book allowances and travelling expenses of employees while on educational leave should be charged to an appropriation specially provided for that purpose. The inclusion of such costs—the salary portion of which approximated \$265,000 in the year under review—with the salaries and expenses of employees on duty in the various departments is not conducive to effective parliamentary control over the expenditure.

Mr. HENDERSON: This paragraph deals with educational leave costs.

The nature of these costs was originally described in my 1961 report. As the suggestion made in this paragraph had not received any attention I updated the situation in my 1963 report under paragraph 93 at page 62.

Our concern here is that under the procedure I have described parliament is not being informed of the total cost of educational leave and on the basis that you should be informed of that it would be helpful to us to know whether you feel that would be a desirable improvement.

There are considerable costs involved here and we are seeking to have them all put together in the one place so you can see the costs of tuition and leave paid each year to civil servants.

The CHAIRMAN: Are there any questions on this paragraph or do you prefer that this be left in abeyance, to be dealt with when the 1963 report is being discussed?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: The next is paragraph 109.

109. *Cost of gasoline used in departmental motor vehicles at Ottawa.* As noted in last year's report (paragraph 83) the feasibility of supplying gasoline and oil for all government vehicles in Ottawa from central supply points had been referred to the government motor vehicle Committee for consideration.

As the result of a survey completed by the committee in January 1962, it was estimated that the annual cost of gasoline purchased for crown-owned vehicles in the Ottawa area amounted to \$73,700, of which \$33,276 was for gasoline obtained from commercially operated service stations. On this basis, it was estimated that the cost would have been reduced by \$14,000 if all gallonage had been supplied by crown-operated facilities.

On September 28, 1962, we were informed that the study of this matter by the government motor vehicle committee was almost complete and that a presentation was to be made to the treasury board in the near future.

Mr. HENDERSON: Paragraph 109 deals with the cost of gasoline used by the government in Ottawa.

On November 5, 1963, we were informed by the secretary of the treasury board that the government motor vehicle committee was studying another alternative for supplying crown owned vehicles with gasoline requirements on a bulk basis which would produce a better price than that which is presently paid but would allow the provision of gasoline through service stations. Since then we have had no further information from the treasury board but we have noted in the audit that a special discount of three cents per gallon, which had been allowed on purchases by the House of Commons, was discontinued by the oil company on August 19, 1963. So, possibly as a result of that, we may not achieve the saving we set out to make.

Mr. WINCH: Perhaps we better get in touch with the oil companies in this regard.

The CHAIRMAN: Are there any further comments on this paragraph. If not, we will proceed to paragraph 110, as follows:

110. *Cost of advertising.* In 1961-62 the total cost of advertising passed by the advertising unit of the comptroller of the treasury's office, including agency and non-agency advertising, was in excess of \$5,000,000.

Prior to 1954 there was an arrangement with the Canadian Daily Newspapers Association whereby government advertising enjoyed a special rate, but this arrangement was allowed to lapse. During the course of the audit we noted that a publisher had drawn the attention of a government department to the advantage of entering into a contract for classified advertising, pointing out that there was a difference of twelve cents per line between the contract rate and the casual rate—from 34 cents to 46 cents. The minimum annual usage to qualify for the contract rate in this case would be 2,000 count lines whereas the department had used 2,624 lines of classified advertising in the previous two months.

We suggested to the Department of Finance on April 13, 1962, that the field of government advertising might usefully be reviewed in the interests of greater economy. The department replied on September 17, 1962, that the treasury board several months earlier (on May 23, 1962) had approved our suggestion in principle and that officers of the treasury board were currently looking into the matter.

Mr. HENDERSON: In respect of paragraph 110, cost of advertising, a treasury board circular letter of May 28, 1963, directed that departments and agencies placing advertising in daily newspapers are to negotiate the purchase of advertising with certain newspapers in accordance with the current volume rate shown in a schedule attached to the circular.

In July of last year treasury board issued a circular, in which the secretary stated a number of difficulties had been encountered in negotiating the rates outlined in the schedule, some newspapers insisting that formal contracts covering the minimum amount required to qualify for the volume rates are prerequisites to the granting of the volume rate to any one department or agency. He said that consequently for the time being departments and agencies should merely endeavour to negotiate at the best rate possible, keeping in mind the volume rates outlined in the schedule. He advised that the matter would remain under review.

The matter has, in fact, been reviewed as recently as January, 1964. It is our hope that there eventually may be a contract to cover all government departments. If this does not materialize I shall refer to the matter again in my next report to the House of Commons.

There is an appreciable saving to be made here, and that is the reason I have been pursuing this matter.

The CHAIRMAN: On a percentage basis this would be the difference between 46 cents and 34 cents.

Mr. TARDIF: Is this 36 cents per line?

Mr. HENDERSON: The circumstances are described in a section in paragraph 110. Prior to 1954 there was an arrangement with the Canadian Newspapers Association whereby government advertising enjoyed a special rate, but this arrangement was allowed to lapse, and during the course of the audit we noted that a publisher had drawn the attention of a government department to the

advantage of entering into a contract for classified advertising, pointing out that there was a difference of 12 cents per line between the contract rate and the casual rate. The minimum annual usage to qualify for the contract rate in this case would be 2,000 count lines, whereas the department had used 2,624 lines of classified advertising in the previous two months.

Mr. TARDIF: It would appear to me that the cost of advertising per line, for instance in the city of Ottawa, is much lower than 46 cents.

Mr. HENDERSON: Do we have any idea of the current rate?

Mr. GEORGE LONG (*Acting Assistant Auditor General*): This particular case concerned Montreal, I believe.

Mr. HENDERSON: This concerned Montreal.

Mr. TARDIF: This must be the price per line per newspaper. Actually, I would be curious if someone would obtain for our next meeting the rate of an Ottawa newspaper for a similar type of advertising. I think you will find there is a great deal of difference.

Mr. HENDERSON: I think so. However, this was a Montreal case. But, if they did do it on a bulk basis there would be a larger saving. It seemed to us to be somewhat anomalous to have the supplier pointing out to the government how the government could save money in this way.

Mr. TARDIF: I agree that a contract should be entered into which would cover all newspapers in Canada.

Mr. STEFANSON: Mr. Chairman, does this item come up in the 1963 report?

Mr. HENDERSON: No.

Mr. STEFANSON: I was going to suggest in respect of any item which appears in the 1963 report we should leave it for the time being because we have almost 100 items left in the 1962 report and we have 182 items in the 1963 report. If we are ever going to catch up we will have to proceed faster than we are now.

Mr. HENDERSON: If I may say so, I think we are moving along very well and, as we get into the further sections in this report we could group them together unless you have specific questions you want to bring out in the 1962 report. I think we should be into the 1963 report very soon.

The CHAIRMAN: Is there any further discussion. Did you want some information on this, Mr. Tardif?

Mr. TARDIF: Mr. Chairman, I think it might be a good idea to ascertain what the rate in Ottawa is for a similar type of advertising. I do think it would be helpful.

Mr. HENDERSON: We can find that out for you.

Mr. TARDIF: I do not agree that the items in the 1962 report should be passed over quickly in order to reduce the amount of time it will take us to reach the 1963 report and do the job we are expected to do.

The CHAIRMAN: Mr. Tardif, we will try and obtain that information for you.

Mr. McLEAN (*Charlotte*): I note that it speaks about the newspaper association; would that include all papers in Canada? Could a rate be negotiated with all the newspapers if a contract is made?

Mr. HENDERSON: Well, there had been a rate prior to 1954 with the Canadian daily newspapers; however, that was allowed to lapse and as a result of this we hope it will be taken up again.

Mr. McLEAN (*Charlotte*): Would that be an average rate for the papers across Canada?

Mr. HENDERSON: Well, a special rate was negotiated by them with the government for all departments which, on account of the volume situation, resulted in a lower rate. Perhaps there is the possibility this can be revived now.

The CHAIRMAN: We will proceed to paragraph 111.

111. *Losses reported in the public accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the public officers guarantee account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the public accounts".

The statements of losses included in the public accounts for 1961-62 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the public accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the post office numbered 18 and amounted to \$60,588. Of these, 12 involving \$9,829 were recovered in full during the year, and partial recoveries of \$8,007 were obtained in other cases. Losses suffered by the post office department numbered 97 and amounted to \$63,536. Of these, 68 to a total of \$32,469 were recovered in full and partial recoveries totalled \$8,505.

Mr. HENDERSON: Paragraph 111 is an informational comment contained in my report each year having to do with losses reported in the public accounts.

I do not think anything would be gained by discussing this, unless you wish.

The CHAIRMAN: Paragraph 112 is next.

112. *Over-commitment of appropriations for the purpose of facilitating winter works programs.* During the latter part of 1961 the treasury board considered detailed proposals for winter works programs submitted by a number of departments (which would be additional to the main winter works program provided for by vote 614 under the Department of Labour). Approval was given to numerous projects which were recognized by the board as useful and acceptable supplementary elements of normal departmental programs, which would involve substantial wage costs in relation to their total costs and which could be mounted quickly in order to generate employment during the winter months, particularly in areas of severe unemployment.

The board was aware of the fact that in some instances existing appropriations would be inadequate to finance approved programs, and realized also that section 30 of the Financial Administration Act was a statutory obstruction to proceeding expeditiously with the projects. This section provides that no contract shall be entered into or have any force or effect unless the comptroller of the treasury certifies that "there is a sufficient unencumbered balance available out of an appropriation or out of an item included in estimates before the House of Commons to discharge any commitments under such contract that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract was entered into".

With a view to avoiding delay, the comptroller was asked by the board to record commitments on a provisional basis beyond the amounts provided by existing appropriations "until such time as the additional provision is appropriated." Concurrently the board provided lists of

"allowable over-commitments" to the departments concerned, informing them that: "the comptroller of the treasury has been asked to allow over-commitment of your existing appropriations on the understanding that the board is willing to submit supplementary estimates up to those amounts to parliament later in the year". This was regarded by the comptroller as authorization to departments to enter into contracts in amounts in excess of the balances available in the particular appropriations without the certificates required by section 30 of the act.

Notwithstanding the importance of facilitating winter works programs—or any other urgent executive plan—the audit office view is that over-commitment of appropriations in the manner described above is contrary to what is contemplated by the Financial Administration Act.

Mr. HENDERSON: Paragraph 112 deals with the overcommitment of appropriations for the purpose of facilitating winter works programs.

There is an important principle embodied in this note; namely that notwithstanding the importance of facilitating winter works programs, any other urgent executive plan for that matter, the audit office view is that it weakens parliamentary financial control if over-commitment of appropriations is countenanced in the manner described, which is contrary to what is allowed under the Financial Administration Act. I would be interested to know whether you do not feel that is the case, after noting this paragraph.

You see, the exception is made for a perfectly good reason but, however, it does tend to weaken parliamentary control.

The CHAIRMAN: Is this carried on in the next report?

Mr. HENDERSON: No. This is a one time note of something which took place in 1961.

The CHAIRMAN: Is there any comment on this paragraph? If not, we will proceed to paragraph 113.

113. *Unpaid accounts carried forward to new fiscal year.* In last year's report (paragraph 84) attention was directed to instances where accounts remained unpaid at the year-end and were required to be recorded as expenditure in the succeeding fiscal year because Parliament had not been asked for supplementary appropriations to provide the additional funds required, although it had become apparent before the year-end that existing appropriations would be inadequate.

No instances were noted this year where there had been a failure to seek supplementary parliamentary appropriations in such circumstances. However, as in previous years, there were cases where amounts provided by main and supplementary appropriations fell short of requirements and unpaid accounts had to be carried forward to the succeeding fiscal year. An example is the appropriation for "construction or acquisition of buildings, works, land and major equipment" for the Royal Canadian Air Force (Vote 240, as supplemented, \$267 million) which was insufficient to meet all accounts that came in course of payment in the fiscal year, and accounts totalling approximately \$12 million were carried forward and charged as 1962-63 expenditure.

Mr. HENDERSON: Paragraph 113 primarily is an informational note for the members of the house and, again, I do not think we need to take time on it.

The CHAIRMAN: Paragraph 114 is next.

114. *Identical tenders.* In paragraph 77 of last year's report it was brought to notice that the Department of Public Works had called for tenders for the supply of incandescent lamps and fluorescent tubes to meet the needs of various federal buildings throughout Canada during

the fiscal year 1961-62 and that, based on the application of unit prices to estimated quantities, identical bids of \$301,191.16 were received from the three companies submitting the lowest complete tenders. This was the third instance of identical bids for lamps during the preceding four years, and the treasury board authorized placing the order with a company other than the one which had held the contract during the two previous fiscal years.

During the year under review the Department of Public Works called for tenders for the supply of incandescent lamps and fluorescent tubes which it was estimated would be required during the two year period commencing April 1, 1962. It was hoped that the longer term contract might result in a more competitive set of quotations and in one firm quoting lower than the others. When the tenders were opened, it was found that the same three firms which had submitted the identical low bids for 1961-62 had again submitted identical low bids in the amount of \$645,264.16. After placing the facts before the combines branch of the Department of Justice, as had been done in previous years, the Department of Public Works obtained treasury board authority to award the contract to the company which offered products manufactured wholly by itself, which offered as part of its tender a bonus type lamp and which had not had the order in the preceding year.

During the course of our examination of departmental records during the past year, we noted, in addition to the above "repeater" case involving incandescent lamps and fluorescent tubes, approximately 100 cases of identical tenders having been received by government departments. In practically all of the instances, which covered a number of product areas, details were furnished by the departments concerned to the combines branch.

We are informed that the combines branch is continuing its practice of scrutinizing and accumulating such evidence in the event that the information "may ultimately become relevant and useful should evidence of collusive practices be disclosed". In the course of reviewing our findings regarding government purchases, we have suggested to officers of the Branch that it might be desirable were all identical tenders received by government departments, crown corporations and other agencies listed each year by the combines branch in the annual report made by the director of investigation and research to the minister of justice under section 44 of the Combines Investigation Act.

Mr. HENDERSON: Paragraph 114 deals with identical tenders. This was discussed in detail in December, 1963, and I would suggest we might pass this over because we do refer to it in the 1963 report.

The CHAIRMAN: Is that agreeable?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Paragraph 115 is next.

115. *Non-productive payments.* paragraph 71 of the fifth report, 1961, of the public accounts committee reads:

The committee gave consideration to the extent to which it felt it would wish to be informed regarding non-productive payments in future. Although it recognized the difficulty that would be involved in defining a 'non-productive payment', it came to the conclusion that information regarding such payments would be of value, and it accordingly requests the auditor general, in his future annual reports to the House of Commons, to include listings of any such payments that might have come to his notice in the course of his audit.

In accordance with the request contained in the foregoing observation, a listing is given below of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of departmental expenditures for the fiscal year 1961-62.

1. Payment for loss of revenue by pipe line company, Cold Lake, Alta. In May 1959 the Department of National Defence entered into an agreement with a pipe line company to supply natural gas to the air force station at Cold Lake on an annual 'take or pay' minimum consumption basis, to take effect on November 1, 1960, when an additional boiler which was in the planning stage would be installed. A contract for the manufacture of the boiler was awarded in September 1959, and foundation drawings and shop drawings were made available in due course to a consultant firm which was to proceed as quickly as possible to provide plans and specifications in order that a contract for the construction of an extension to the central heating plant to house the new boiler could be awarded, but no date was specified by which the plans and specifications were actually to be produced by the consultant.

Normally the construction work would have been carried out in the fall of 1959 and the boiler would have been installed and in operation in the fall of 1960. Due mainly to delays on the part of the consultant in producing the plans and specifications, the construction contract could not be awarded until September 1960 and the new boiler did not become operational until the middle of July 1961.

Because of the failure of the crown to have the additional boiler capacity ready on the agreed date and its inability to take the quantity of gas made available by the pipe line company, the latter suffered a loss of revenue which the crown remedied in part by an ex gratia payment of \$20,000.

2. Printing of official history of the Canadian army, French edition. In October 1956 the Department of Public Printing and Stationery, on behalf of the Department of National Defence, awarded contracts for the printing of 3,000 copies each of the French edition of volumes I and II of the official history of the Canadian army in the Second World War, a translation of the earlier English edition.

Mainly because of delays in processing, including numerous changes in translation, delivery of volume I was not made until April 1959, while volume II did not become available until October 1960. Firm prices were not established with the contractor and during the four years which elapsed between the initial stages of composition and final publication there were increases in printing, labour and material costs.

As a result, when final payment was made in 1961-62, publication of the two volumes cost \$26,060 more than the original estimate of \$28,983.

3. Exterior painting of housing units, Camp Shilo, Man. In July 1959 a contract in the amount of \$24,362 was awarded by Defence Construction (1951) Limited for the exterior painting of 149 permanent married quarters at Camp Shilo, under the general supervision of the army works service. The contract, which was to have been completed in the fall of 1959, was not finished until a year later and substantial losses were incurred by the contractor, who claimed

that (i) the selected colour scheme was not in accordance with the departmental standard practice; (ii) houses previously painted with dark colours were required to be painted with light colours, thus necessitating additional undercoating; and (iii) approximately 90 per cent of all window sash was required to be painted a different colour from that used for the window frames, involving additional work. For its part, the army works service claimed that the losses were largely attributable to factors for which the contractor was responsible, but the contractor was nevertheless paid an additional \$11,371 in settlement of his claim during the fiscal year.

4. Construction of outside services, Royal Military College, Kingston, Ont. A contract for electrical distribution systems, sewer connections, roads, curbs and miscellaneous outside services at the Royal Military College was awarded in April 1959 by Defence Construction (1951) Limited, in the amount of \$488,671.

The contractor planned to install the electrical distribution systems and sewer connections concurrently, thereby employing the same excavation equipment for both these phases of the work. However, at an early stage he was requested to rearrange his work schedule to make an immediate start on the electrical distribution work in the sports field area, one-half mile from his planned starting point. This required the use of additional excavation equipment and additional costs were thus incurred. The contractor was also requested to reschedule certain other phases of the work and to postpone the use of certain equipment in order not to interfere with the academic timetable or disrupt scheduled ceremonial functions of the college. Further delay was occasioned by changes in the design of the electrical distribution services and transformer vaults.

As a result of the rescheduling of work and the delays mentioned above, the contractor incurred further costs and he was paid an additional \$66,591 during the fiscal year.

5. Construction of reservoir, Point Edward naval base, Sydney, N.S. In August 1959 a contract for \$328,000 was awarded by Defence Construction (1951) Limited for the construction of a reinforced concrete reservoir at the Point Edward naval base. The contractor ordered equipment and had it shipped to the site for incorporation into the project, but the crown company's engineer, in interpreting the contract specifications, demanded the use of a type of equipment other than that purchased by the contractor. The contractor thereupon took steps to replace the equipment but there was a delay of two months in doing so and this extended the work until winter conditions had to be faced.

The contractor claimed for the additional costs thus occasioned and was paid \$4,339 during the fiscal year under review.

6. Construction of aircraft hangar, Bagotville, P.Q. The construction of an aircraft hangar at the air force station at Bagotville involved a sub-contract for the fabrication and erection of structural steel in the amount of \$168,450. This sub-contract was awarded in January 1956 with the intention that steel erection would be completed by the end of August of that year. Defence Construction (1951) Limited had undertaken to supply working drawings but due to the large number of modifications to the standard design required by the air force, the task of preparing the drawings was given to the contractor.

In the meantime, some two and a half months elapsed before fabrication of the steel was proceeded with, the result being that steel erection did not commence until October 1956 and was not completed until May 1957.

The delaying of steel erection from the summer of 1956 to the winter of 1956-57 caused the work on the project as a whole to be prolonged into the winter and, as a result, the prime contractor claimed additional costs of \$89,552. The crown accepted responsibility for part of the delay and made settlement in the amount of \$23,822 in 1961-62.

7. Construction of aircraft hangar, Summerside, P.E.I. In July 1961 Defence Construction (1951) Limited awarded a contract for an extension to a cantilever hangar at Summerside, requested by the Department of National Defence in April 1961. In anticipation of this, a contract for \$295,340 had been awarded in March 1961 for the fabrication and erection of structural steel, and this contract stipulated that fabrication commence June 1, 1961 and that erection commence August 24, 1961 and be completed by November 30, 1961.

Due to the delay in the awarding of the main construction contract (July 7, 1961) foundations which should have been in place ready for the erection of steel by August 24, 1961 were not finished until December 1961. As a result, steel that was scheduled to be erected during the fall was erected under winter conditions with the consequence that additional costs of \$8,250 were incurred by the contractor, and he was reimbursed accordingly.

8. Installation of radio equipment, air force station, Trenton, Ont. In September 1959 a firm price contract of \$29,960 was awarded by the Department of Defence Production for the ground-to-air radio facilities at the air force station at Trenton, the installation to be in accordance with air material command specifications and installation directives. However, at the commencement of the work it became apparent that the drawings were inaccurate and that there were errors and omissions in the specifications.

The contractor submitted a claim for the extra work resulting from these conditions and was paid a sum of approximately \$30,000 over and above the firm price mentioned above.

9. Operational tests on divers' recompression chambers. In February 1959 a contract in the amount of \$58,042 was awarded by the Department of Defence Production on behalf of the Department of National Defence for two recompression chambers, four air-cooled compressors and other components, along with shop trials of the equipment at firm hourly rates. On receipt of some of the units from a sub-supplier, the contractor advised the two departments that he was unable to proceed with the shop trials due to the fact that certain equipment necessary for them had not been included in the order and was not readily available. Three months later, after requisite approval had been obtained, the equipment was ordered with a delivery date of 90 days following receipt of the order. In the meantime, the contractor, in need of working space, was forced to dismantle the compressors, store them outside his shop and then re-assemble them for the shop trials.

The file indicates that had the equipment referred to been included in the order, it would have been supplied at no charge and the shop

trials could have proceeded without delay; as it was, the contractor's additional costs of \$2,686 were paid during the fiscal year under review.

10. Security seals. After considerable research and testing by the Royal Canadian Mounted Police in collaboration with a private firm, a dry seal was developed to replace the sealing wax method for securing paper envelopes containing classified national defence documents and correspondence. The seal was approved by the departmental security committee and in November 1960 an order was placed with the firm for 500,000 pairs of serially numbered seals to cost \$31,130, and in due course the seals were produced according to specifications and delivered to the department.

Up to the time of our examination none of the seals had been used because, for a time, it appeared that two pairs instead of one would be needed to provide adequate security, and subsequently one Service declined to put the seals into use. Consideration is currently being given to the need for seals of this type in the public service generally.

11. Cost of expropriation of property for Trans-Canada highway. In order to acquire a right of way for the Trans-Canada highway in Banff National Park in 1955, the Department of Northern Affairs took expropriation proceedings in connection with a number of properties in the former townsite of Anthracite. Settlements were made with 7 of the 12 former owners, a total of \$1,950 being paid for their land. Before agreements had been reached with the others, it became apparent that the expropriation proceedings had been invalid as they should have been taken under authority of the National Parks Act, R.S., c. 189, rather than the Expropriation Act, R.S., c. 106. The necessary concurrence of the governor in council to expropriate under the National Parks Act was received in 1958 but the registrar of land titles at Calgary declined to act on the grounds that the title to the land had been vested in the crown since 1955. In order to resolve the problem, it was necessary for the Department of Justice to seek a court order requiring the second registration, which was obtained through the supreme court of Alberta in 1961.

At the suggestion of the Department of Justice, all lands involved were then re-appraised, with the result that an additional \$5,975 was paid in 1961-62 for the property acquired from those who had already accepted settlement in 1955.

12. Construction of Surveys and Mapping Building, Ottawa. In April 1958 a contract was awarded by the Department of Public Works for construction of a surveys and mapping building in Ottawa at a fixed price of \$7,840,000 for the Department of Mines and Technical Surveys. In February 1959 the contractor was instructed to suspend work in the south wing area of the building due to the lack of detailed information regarding certain mechanical equipment that had been ordered by the Department of Mines and Technical Surveys, for which the contractor had to supply mechanical and electrical services. In the following September work was also stopped in the north wing area as changes to permit the addition of press rooms were contemplated. The final plans for the two wings were not confirmed until November 1959 and the contractor was then ordered to proceed.

The contractor was paid \$141,392 in March 1962 to cover additional costs incurred as a result of delay caused by the work stoppages referred to above.

13. Construction of breakwater, New Haven, N.S. In September 1958 the Department of Public Works was authorized to enter into a contract for the construction of a breakwater at New Haven. The estimated cost of \$125,050 was based largely on fixed unit prices for estimated quantities of quarry-run rock core and protective armour stone, and the specifications stated that suitable stone for the purpose could be obtained from a crown-owned quarry adjacent to the site.

Although the contractor tried various quarrying methods, he was unable to obtain the required armour stone from the quarry. In April 1959, after departmental officers had confirmed that the contract could not be performed as specified—and after efforts had failed to persuade the contractor to use armour stone to be extracted from nearby privately-owned quarries, except on a cost-plus basis—the contract was terminated by the department. The contractor was reimbursed \$121,399, of which \$94,920 was paid during the year under review, for direct costs incurred by him in his largely abortive effort, plus an allowance for overhead.

In May 1960 a contract was entered into with another company to complete construction of the breakwater (slightly larger than originally specified) and it was completed at a cost of \$134,854. The required armour stone was obtained from two privately-owned quarries within a mile of the work.

After making allowance for the value of the core stone which was still in position when the second contract was undertaken, and work which had been performed in the construction of an access road, it was estimated that the total outlay of \$256,253 included a non-productive cost of approximately \$95,000, sustained because the first contractor was misled with respect to the availability of armour stone in the specified quarry.

14. New wharf and shed facilities, Corner Brook, Nfld. The Canadian National Railways requested that new wharf and shed facilities be provided at Corner Brook to service an enlarged coastal vessel fleet. A survey of possible sites resulted in the selection of a location along part of an area that was being filled by the railways for expanded yard facilities. The railways were advised of the selection in July 1958 and notified the Department of Public Works in the following month that the site was acceptable, and it was assumed by the department that this concurrence would automatically suspend further filling operations. However, following the award of a contract for the construction of the new wharf and shed in 1960, it was found that an additional 15,000 yards of fill had been placed by the railways after the original survey. The removal of this material, which was necessary in order that the wharf alignment coincide with required berth grades and railway track alignment, was carried out by the contractor at an additional cost of \$66,750, which was paid during the year under review.
15. Cost of maintaining unused office space, London, England. In 1959 the Department of Public Works was assigned responsibility for

the provision and management of office space for Canadian government departments in London, including office space previously controlled by other departments.

One of the properties involved had been acquired in 1953 by the Department of Citizenship and Immigration under a leasehold agreement extending to 1994. As a result of a consolidation of Canadian government offices in London, the main building on the property was vacated in September 1961, with only the courtyard and out-buildings being used subsequently.

The cost of renting and maintaining the unused premises approximated \$18,000 during the last half of the year ended March 31, 1962. Up to the date of this report, the Department of Public Works had been unable to dispose of the residue of the leasehold interest in the property on satisfactory terms.

16. Repairs to public wharf, Bayfield, N.S. In January 1961 a contract was entered into by the Department of Public Works for repairs to the outer section of a public wharf at Bayfield. Shortly after work had been commenced by the contractor, local fishermen expressed concern over the possibility that the wharf would not be in a usable condition during the lobster season and that the repair work would have an adverse effect on the impounded lobsters. As a result, the contractor was ordered to suspend work until the beginning of July. He was subsequently paid \$5,910 to cover costs incurred by him as a result of the suspension of the work.
17. Delay in proceeding with construction of building addition, Stephenville, Nfld. Late in 1958, when the Department of Public Works was contemplating an addition to a crown-owned building at Stephenville, the municipal council informed the department that a building permit would not be granted unless arrangements were made for adequate parking facilities. Although the matter had not been resolved, the department called for tenders and on March 2, 1959 the successful bidder was notified that his tender of \$65,292 had been accepted. On March 12 he informed the department that he had been refused a permit because of the parking situation. It was not until August 25, following extensive negotiations between the municipality and the department, that the municipality consented to issue a permit, and work commenced on the following day.
During the year under review the contractor was paid an additional \$5,136 to compensate him for expenses incurred as a result of the delay in proceeding with the work.
18. Construction of housing units, Fort Smith, N.W.T. In August 1959 the Department of Public Works entered into a contract in the amount of approximately \$370,000 for the construction of a number of housing units at Fort Smith. Although the specifications required the contractor to arrange with the electrical supply authority for connection to its lines, a local representative of the department undertook to make the necessary arrangements and in due course informed the contractor that power would be available on September 21, 1959. As the department's representative was remiss in completing arrangements, power was not made available until October 16. Due to the lack of power, it was not possible to operate the heating units in the houses and carpenters and sub-tradesmen were unable to work, or did so with reduced efficiency, until power became available.

In January 1962 the contractor was paid \$3,556 to compensate him for the additional costs thus incurred.

19. Architectural services re proposed R.C.M.P. building, Markham, Ont. In 1958 the Royal Canadian Mounted Police was authorized to acquire a site at Markham on which to construct a divisional headquarters. The cost of acquisition was \$127,500, including \$52,000 for the provision of water services. In December 1959 a firm of architects was engaged by the Department of Public Works, acting for the Force, to prepare plans and specifications and to supervise construction of the proposed facilities. In April 1960, following a review of the suitability of the Markham site, the conclusion was reached by the Force that it was too remote from downtown Toronto to provide a satisfactory base for divisional operations. The consultants were accordingly ordered to stop work on the project pending further instructions. In the year under review they were paid \$9,439 calculated in accordance with the "abandonment of work" clause of the terms of engagement. No action has been taken for the disposal of the property.
20. Construction of dwellings, Kenora, Ont. In September 1959 the Department of Transport advertised for tenders for the construction of three double dwellings, a single dwelling and related work at Kenora. Before a contract had been signed, the lowest tenderer, whose bid was \$120,000, claimed that the plans and specifications provided for plumbing, heating and mechanical equipment on one side only of each of the double dwellings and that his price had taken this into consideration. He offered to do a complete job for \$133,200. When efforts to induce him to proceed at the original tendered price were not successful, a second call for tenders was made in June 1960 after the plans and specifications had been modified to remove any possible ambiguities. The same contractor was again the low tenderer and his bid of \$141,712 was accepted. The work was completed during the year under review at a total cost of \$142,096.

The additional cost which thus indirectly resulted from the deficiencies in the plans and specifications used when inviting tenders is a matter of conjecture, but a reasonable assumption is that it was in excess of \$8,000.
21. Architectural services re proposed air terminal building, Victoria, B.C. In July 1960 the Department of Transport was authorized to engage a firm of architects to design and supervise construction of an air terminal building and associated facilities at the Victoria International airport. Early in 1961, when it became evident that traffic in and out of the airport had declined sharply, a reassessment of space requirements led to a decision to abandon the original proposal. The architects were paid \$4,195 for work completed on sketch plans, and were instructed to prepare new plans based on reduced space requirements. In March 1962, because of circumstances which it was felt might have a further adverse effect on traffic, the department decided not to proceed with the second proposal and the architects were paid \$24,281 for services rendered in the preparation of the related sketch plans and working drawings. As they were also paid \$1,184 in reimbursement of travel expenses, a total of \$29,660 was paid to them during the year under review in connection with abandoned plans. At the year-end the same

architects had been engaged to prepare plans for a still more modest project.

22. Architectural services for air conditioning system at air terminal building, Halifax, N.S. The Department of Transport requested the consultants who had been engaged to perform architectural services in connection with the construction of the terminal building at the Halifax international airport, to prepare sketch plans and working drawings covering the design of an air conditioning system for the building. When it was decided to postpone the installation of the system in favour of a future installation of more modest design, the architects were paid \$14,480 for work already done in connection with the unused plans.

Summary of Assets and Liabilities

116. The Statement of assets and liabilities as at March 31, 1962, with comparable figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the public accounts and certified by the auditor general in accordance with section 64 of the Financial Administration Act, is reproduced as appendix 2 to this report.

Mr. HENDERSON: Paragraph 115 on nonproductive payments stems from a standing instruction I have received from this committee which I quote. The committee wishes to be informed regarding nonproductive payments to the extent that we encounter them through our work.

Now, in the fiscal year ended March 31, 1962, we encountered these 22 cases, which I felt members would wish to note. Of these 22, eight stem from the Department of Northern Affairs, five from Defence Construction (1951) Limited, three from the Department of Transport and lesser numbers from the departments of national defence, public works and so on.

Now, the total amount of money involved in these 22 cases, which run over to the end of page 60, is \$627,000.

You might be interested in knowing very broadly the nature of these. The sum of \$275,000 of these nonproductive payments involved seven cases caused by faulty drawings or goods delivered which were not suitable, and that type of thing.

An equal amount, \$275,000, stemmed from extras arising as a result of delays, winter conditions; in other words demands by contractors over and above the contract terms which, in its wisdom, the government found it had to pay. That accounts for \$550,000 of the \$627,000. The remainder consists of four cases where no value was received at all; they were in the category of *ex gratia* payments, and they accounted for \$53,000, and outright extra claims by contractors accounted for the balance by another four claims.

That, very broadly, is a quick summary of what is contained here. We have a similar and longer list in the 1963 report and if you wish to dwell on any particular one, I will be glad to answer any questions which are put to me. I would say to you again, as I have done before, that every organization, business or government, runs into this sort of thing. We have endeavoured to set out the circumstances giving rise to each case, why the money was paid, and we can deal with any questions members may have on these specific items.

Mr. CARDIFF: Mr. Chairman, I have a question in respect of subparagraph number 2. This was a contract that was let for the printing of the official history of the Canadian army, French edition, for a contract price of \$28,983, and it overran the estimate by \$26,060, which is almost double. I do not think there is any sense or reason for that kind of contract. Surely if a man takes a contrac

he should have enough sense and knowledge when carrying it out not to charge twice as much as the contract price. As I say, I cannot see any sense or reason to this.

Some hon. MEMBERS: Agreed.

Mr. HENDERSON: There is an undoubted waste here in a number of the areas covered which indicate bad management as well as other reasons.

Mr. CARDIFF: I would think that a firm that was given a contract to print something would have certain standards to go by so that they would know how to proceed and would not make a lot of unnecessary mistakes. In my opinion, that is their fault.

Mr. HENDERSON: Of course, the fault there is that firm prices were not established.

Mr. TARDIF: Then, that is the responsibility of the officer who gave out the contract.

Mr. HENDERSON: That is right, sir.

Mr. TARDIF: Well, if he does things like that what action is taken by the department so that it does not happen again? Is the official told he must not do it again or does the same situation apply here as in the case of private industry, where he is fired?

Mr. HENDERSON: Well, I would have to give you a specific answer on a case like that by running it down and finding out what the queen's printer did in that respect. That same question would apply to each of the cases.

Mr. TARDIF: Practically in every one of these items.

Mr. HENDERSON: Yes, that is right. There are some other quite heavy losses.

I would suggest we might pass on, Mr. Chairman, and revert to this when we deal with what is a very much longer list in 1963.

Mr. CARDIFF: It is just about time they were stopped.

Mr. TARDIF: Subparagraph no. 4 of paragraph 115 probably was the decision of someone in the military college, who said: "We want to play a game on such and such a date" and requested that the work schedule be rearranged to make an immediate start on the electrical distribution work in the sports field area, regardless of what it cost. Now, this is not efficiency and the people responsible for this type of situation should be told so. Or did he get a promotion to colonel.

Mr. FORBES: There appears to be another problem in respect of subparagraph 11, where the government acquired some property by expropriation, settled for it and then discovered the title was not properly registered and they had to pay for it all over again, involving an additional \$5,975, in respect of a little piece of property for a right of way. It would appear to me there has been a lot of carelessness or negligence in this respect.

Mr. HENDERSON: Well, you may feel that you wish to make a comment or recommendation when you deal with these in the 1963 report because we have many more for that year. In fact, there were so many we had to put them in an appendix at the back of the report. We ended up with 37.

Mr. FORBES: It looks as though the legal advisers were not too efficient in handing out advice.

Mr. HENDERSON: Well, it is always hard to pinpoint the blame. I know it can be placed on the doorstep of some official but it is not an easy thing sometimes to pinpoint it under the form of government organization which exists.

Mr. TARDIF: Has there been any investigation by your department to find out the reason for this?

Mr. HENDERSON: We go into all the facts. This is our resume of the cases. We do come up with many more than we put in here, but we endeavour to screen them out. There are a number which are repetitions and, as a result, we show the difference types for your perusal. In the case of 1963, where we have 37, we started off with something like 50 but we screened them out and just left type examples.

Mr. TARDIF: Your report in no way shows the total cost to the government of this phase of activity.

Mr. WINCH: There might well be more involved than you have indicated.

Mr. HENDERSON: That is true because our work is done on the basis of test verification and we only list those we encounter in the course of our test work.

Mr. WINCH: The situation may be far more serious than is indicated here?

Mr. HENDERSON: That is quite true although this is representative however, as you suggest, the volume will be greater and in fact must be greater.

Mr. McMILLAN: In connection with this particular subject, Mr. Henderson has suggested that there were 40 odd came to light in 1963. Perhaps we should call some of the officials as witnesses to testify in respect of the more glaring cases.

The CHAIRMAN: I intended to suggest to the members of this committee that perhaps between now and the time we reach our consideration of the 1963 report members who wish to call certain of these to our attention can indicate to me the number and I will pass the information along to Mr. Henderson so that he can make the information available at that time.

Mr. HENDERSON: Perhaps if the members read the 1963 report as well as the 1962 report in respect of these items they will be able to indicate the number of the ones on which they would like further information. Presumably we will be able to make arrangements to have the officers responsible appear as witnesses at one of our next meetings.

Mr. McMILLAN: I think we should follow that suggestion.

Mr. HENDERSON: If you select the ones in respect of which you would like further examination and indicate the numbers to me that would be very helpful.

The CHAIRMAN: If the information in respect of these items is given to me I will pass it along to the steering committee and we can then make sure there is no duplication and pass the information along to Mr. Henderson so that he can arrange to have the appropriate witnesses present at the appropriate time.

Mr. TARDIF: I imagine there are very reasonable explanations for some of these items?

Mr. HENDERSON: That is true. I want to be quite fair in this regard. These things will occur in the best conducted business.

We had an interesting discussion in this committee some years ago when you made this formal request that I set this information down in my report, and I was bold at that time in arguing with you about the extent to which I should be required to bring these items forward, bearing in mind that they are not unusual in business. I have sought to be scrupulously fair in their presentation. There have been some plain boners while others occurred as

a result of situations in which contractors were faced with certain costs which have been recognized, although the government did not receive value.

Mr. TARDIF: Surely some situations have developed after the contract job has commenced.

Mr. HENDERSON: Yes, and winter conditions have caused certain of these situations, and you are familiar with the case where noise at the Royal Military College interfered with the academic timetable. There is a considerable story in respect of each one of these items and I think it would be very helpful to have the officers concerned present to deal with these items once you have selected them.

Mr. WINCH: Perhaps we could select one or two for further examination.

The CHAIRMAN: I suggest that one or two be selected for further examination by the steering committee in co-operation with Mr. Henderson in order that a suitable illustration can be made for the benefit of the members of this committee.

Can we move to a consideration of the next paragraph, paragraph 116:

Summary of Assets and Liabilities

116. The Statement of Assets and Liabilities as at March 31, 1962, with comparable figures at the end of the preceeding year, prepared by the Department of Finance for inclusion in the public accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as appendix 2 to this report.

Assets

117. The following table lists the assets at March 31, 1962 by main headings in the statement of assets and liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1960	March 31, 1961	March 31, 1962
Current assets.....\$	862,147,000	\$ 784,348,000	\$ 1,246,016,000
Advances to the Exchange Fund Account	1,960,000,000	2,024,000,000	1,793,000,000
Sinking fund and other investments held for retirement of unmatured debt.....	85,272,000	17,018,000	19,432,000
Loans to and investments in Crown corporations.....	3,437,663,000	3,614,188,000	3,985,330,000
Loans to national governments..	1,414,528,000	1,378,196,000	1,339,797,000
Other loans and investments....	943,470,000	1,035,651,000	993,863,000
Securities held in trust.....	30,612,000	30,042,000	25,837,000
Deferred charges.....	616,293,000	733,702,000	727,826,000
Suspense accounts	33,000	136,000	136,000
Inactive loans and investments..	93,539,000	94,825,000	94,824,000
Total Assets.....	9,443,557,000	9,712,106,000	10,226,061,000
Less—Reserve for losses on realization of assets.....	546,384,000	546,384,000	546,384,000
Net Assets.....\$	8,897,173,000	\$ 9,165,722,000	\$ 9,679,677,000

STANDING COMMITTEE

118. *Current assets.* The balances included under this heading at March 31, 1962, with the comparable balances at the close of the two previous years, were:

	March 31, 1960	March 31, 1961	March 31, 1962
Cash	\$ 565,436,000	\$ 486,760,000	\$ 895,321,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization account.....	120,698,000	90,198,000	132,783,000
Defence production revolving fund	20,667,000	15,651,000	27,297,000
Other	54,645,000	65,234,000	63,300,000
	196,010,000	171,083,000	223,380,000
Securities held for the securities investment account.....	77,863,000	101,454,000	94,608,000
Other current assets.....	22,838,000	25,051,000	32,707,000
	<u>\$ 862,147,000</u>	<u>\$ 784,348,000</u>	<u>\$ 1,246,016,000</u>

The increase of \$409 million in cash balances during the year under review may be accounted for as follows:

Net increase in unmatured debt outstanding (see paragraph 135).....		\$ 878,000,000
Net amount received from other non-budgetary transactions (including net repayments of \$231,000,000 of advances to the Exchange Fund Account).....		330,000,000
		<u>1,208,000,000</u>
Deduct—		
Budgetary deficit—excess of expenditure over revenue for the year.....\$	791,000,000	
Decrease in cash in hands of collectors and in transit.....	8,000,000	
		<u>799,000,000</u>
		<u>\$ 409,000,000</u>

The \$132,783,000 balance of the agricultural commodities stabilization account at March 31, 1962 was \$42,585,000 (47 per cent) greater than the corresponding amount at the end of the preceding year, the difference being more than accounted for by the increase of \$45,349,000 in the inventory of butter held by the Agricultural Stabilization Board (see paragraph 181).

The increase of \$11,646,000 in the defence production revolving fund was more than accounted for by working capital advances of \$14,295,000 made to Canadair Limited for the production of five CL-44 aircraft.

The decrease of \$6,846,000 in the balance of the securities investment account was accounted for by (a) a decrease of \$19,364,000 in the temporary holdings of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act offset, in part, by (b) securities of \$12,153,000 (market value at December 31, 1961) received by the Minister of Finance on February 21, 1962 on assignment from the Canadian Arsenal's Limited Pension Fund, with the

approval of the governor in council, upon the transfer to the public service superannuation account of the liability for the payment of pensions to pensioners and former contributors to the Fund. Under the terms of this transfer, the Minister of Finance is to credit the public service superannuation account with the proceeds to be derived from the sale of these securities. There were no sales during the period from February 21 to March 31, 1962, at which date the securities had a market value of \$12,091,000.

Mr. HENDERSON: At page 60 we enter upon a summary of assets and liabilities and with your permission I will try to go through these fairly speedily.

This is the standard presentation that appears in the report for each year. You may wish to stop me and ask questions in respect of certain sections. We are seeking here to show the position of the assets items on the statements of assets and liabilities, which in effect is Canada's balance sheet.

We start out first of all with the assets, and dealing with page 61, paragraph 117 show the components of the items which appear under the heading of assets and then, beginning at paragraph 118, take the current assets and show how they are made up.

The CHAIRMAN: Paragraph 119 is next:

119. *Advances to the Exchange Fund Account.* This account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the minister from time to time within the maximum (\$2,500,000,000 at March 31, 1962) authorized by the governor in council under section 23 of the currency, mint and exchange fund Act, R.S., c.315. The advances to the account at each year-end are included in the statement of assets and liabilities at their total, less repayments, with a parenthetical note associated with the item giving the market value of the investments from the advances. Thus at March 31, 1962 the amount shown for "Advances to the Exchange Fund Account" was \$1,793,000,000, being the total of the advances less repayments, whereas the market value of investments from advances was \$1,759,690,000, indicating an unrecorded deficiency of \$33,310,000. By comparison, the corresponding unrecorded deficiencies at the close of the two previous years were \$154,042,000 at March 31, 1961 and \$213,695,000 at March 31, 1960 (see paragraph 141).

A summary of the transactions in the Account for its financial year ended December 31, 1961 is included in paragraph 194 of this report.

Mr. HENDERSON: We give some explanation and comment at page 62 indicating the reasons for increases and decreases. I do not know that there is anything particular that I should pick out, but paragraph 119 deals with advances to the exchange fund account, later summarized in paragraph 194 of this report. We then refer to the sinking fund and other investments held for retirement of unmatured debt. This is found in paragraphs 120 and 121 as follows:

120. *Sinking fund and other investments held for retirement of unmatured debt.* This item represents the investments held for the sinking fund maintained with respect to Newfoundland loans assumed under the terms of union. The \$19,432,000 holding at March 31, 1962 was \$2,414,000 greater than the corresponding holding of \$17,018,000 at the close of the preceding year.

121. *Loans to and investments in Crown corporations.* The following table lists these loans and investments at March 31, 1962, with the comparable balances at the close of the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Central Mortgage and Housing Corporation	\$ 1,318,683,000	\$ 1,510,711,000	\$ 1,701,029,000
Canadian National Railways ..	1,207,808,000	1,092,590,000	1,165,039,000
The St. Lawrence Seaway Authority	315,927,000	339,927,000	368,216,000
Farm Credit Corporation	115,700,000	155,754,000	209,971,000
National Harbours Board	161,398,000	172,770,000	178,743,000
Northern Ontario Pipe Line Crown Corporation	121,500,000	123,750,000	119,035,000
Atomic Energy of Canada Limited	59,374,000	60,930,000	65,827,000
Canadian Overseas Telecommunication Corporation	22,590,000	31,686,000	37,918,000
National Capital Commission ..	17,742,000	25,232,000	31,478,000
Polymer Corporation Limited ..	30,000,000	30,000,000	30,000,000
Northern Canada Power Commission	25,586,000	26,463,000	26,158,000
Other balances	41,355,000	44,375,000	51,916,000
	<u>\$ 3,437,663,000</u>	<u>\$ 3,614,188,000</u>	<u>\$ 3,985,330,000</u>

The increase of \$190 million in the amount shown for Central Mortgage and Housing Corporation during the year ended March 31, 1962 is largely accounted for by advances of \$224 million during the year, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, less repayments of \$46 million in respect of advances made under this section in previous years.

The increase of \$72 million in the amount shown for Canadian National Railways was accounted for by (a) advances of \$139 million under Canadian National Railways Financing and Guarantee Acts and by a further investment of \$21 million in 4% preferred stock in the Company pursuant to section 6 of the Canadian National Railways Capital Revision Act, R.S., c.311, less (b) reductions of \$66 million and \$7 million as a result of charging to expenditure the temporary loans made to the Canadian National Railways and Trans-Canada Air Lines, to meet their 1961 income deficits, together with a repayment of \$15 million in respect of previous years' advances.

Further loans of \$14 million to the St. Lawrence seaway authority during the year under review, plus an additional \$14 million for deferred interest on loans, accounted for the increase of \$28 million during the year to bring the investment in the Authority to \$368,216,000 at March 31, 1962 (see also paragraph 178).

The increase of \$54 million in the amount for the Farm Credit Corporation is due to further loans of \$52 million under the Farm Credit Act, 1959, c.43, together with an increase in the capital of the Corporation from \$6.4 million to \$8.1 million.

Paragraph 121 deals with loans to and investments in crown corporations and indicates advances made by the government to its own instruments. You will see noted the Central Mortgage and Housing Corporation, the Canadian National Railways and others. There is indication of further loans of \$28 million made to the St. Lawrence seaway authority and further loans to the Farm Credit Corporation. I now come to paragraph 122:

122. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1962 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Belgium	\$ 39,219,000	\$ 36,912,000	\$ 34,605,000
France	152,100,000	143,650,000	135,200,000
India	33,000,000	29,546,000	24,831,000
Netherlands	79,177,000	74,013,000	68,850,000
United Kingdom	1,108,287,000	1,091,544,000	1,074,476,000
Other countries	2,745,000	2,531,000	1,835,000
	<u>\$ 1,414,528,000</u>	<u>\$ 1,378,196,000</u>	<u>\$ 1,339,797,000</u>

The reductions totalling \$38 million during the year ended March 31, 1962 were the result of the continued repayment of each of the loans as the instalments fell due.

Paragraph 122 at page 64 indicates the composition of Canada's loans to national governments which during the year were reduced by some \$38 million. Then paragraph 123:

123. *Other loans and investments.* The balances comprising this asset item at March 31, 1962, with comparable balances at the end of the two previous years, were:

	March 31, 1960	March 31, 1961	March 31, 1962
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 605,175,000	\$ 631,127,000	\$ 659,936,000
Veterans' Land Act advances	188,903,000	199,644,000	207,953,000
Less—Reserve for conditional benefits	37,277,000	33,552,000	30,598,000
	<u>151,626,000</u>	<u>166,092,000</u>	<u>177,355,000</u>
Loans to provincial governments	99,396,000	98,372,000	97,879,000
Balances receivable under agreements of sale of Crown assets	15,982,000	12,094,000	10,622,000
Loans to Old Age Security Fund	28,001,000	17,283,000	10,622,000
Loans to Unemployment Insurance Commission	—	67,000,000	—
Other balances	43,290,000	43,683,000	48,071,000
	<u>\$ 943,470,000</u>	<u>\$ 1,035,651,000</u>	<u>\$ 993,863,000</u>

The following is a listing of the balances comprising the \$659,936,000 shown for the first item in the above table at March 31, 1962:

Subscription to capital:

International Monetary Fund	\$ 564,661,000
International Bank for Reconstruction and Development ..	73,680,000
International Development Association	16,366,000
International Finance Corporation	3,522,000
	<hr/>
	658,229,000
Working capital advances and loans	1,707,000
	<hr/>
	\$ 659,936,000
	<hr/>

During the year ended March 31, 1962, Canada's subscription to the International Monetary Fund was increased by \$21 million through the issue of additional non-interest bearing notes following revaluation of the Canadian dollar portion of the subscription, based on the rate of exchange for the United States dollar at January 31, 1962.

Section 11 of the Old Age Security Act, R.S., c.200, provides for the establishment of a special account in the Consolidated Revenue Fund to which shall be credited the taxes levied by the Act, and provision is made for temporary loans to the special account. At March 31, 1960 the temporary loans amounted to \$28,001,000. These were partially repaid in 1960-61 with the balance of the loans being discharged during 1961-62.

The loans to the Unemployment Insurance Commission in 1960-61 were repaid in full during the fiscal year ended March 31, 1962 (see paragraph 200).

124. *Securities held in trust.* The \$25,837,000 total of balances comprising this item in the Statement represents securities held for the following accounts: contractors' security deposits, \$11,114,000; guarantee deposits in respect of oil and gas permits, \$4,728,000; guarantee deposits in respect of customs duties and excise taxes, \$4,273,000; pilots' pension funds, \$3,433,000; and other, \$2,289,000.

125. *Deferred charges.* The balances included under this heading at March 31, 1962, in comparison with the corresponding balances at the close of the two previous years, were:

	March 31, 1960	March 31, 1961	March 31, 1962
Unamortized portion of actuarial deficiencies—			
Canadian forces superannuation account ..\$	326,300,000	\$ 326,300,000	\$ 326,300,000
Public service superannuation account ...	139,000,000	276,661,000	276,661,000
Royal Canadian Mounted Police superannuation account	—	—	3,533,000
	465,300,000	602,961,000	606,494,000
Unamortized loan flotation costs	150,993,000	130,741,000	121,332,000
	<hr/>	<hr/>	<hr/>
	\$ 616,293,000	\$ 733,702,000	\$ 727,826,000
	<hr/>	<hr/>	<hr/>

The amounts appearing under the heading "unamortized portion of actuarial deficiencies" represent the balances of amounts set up in the accounts when bookkeeping entries were made for the purpose of increasing the balances at credit of the relative superannuation accounts. In paragraph 144 the audit office view is again restated that these bookkeeping entries should not have been made.

The item "unamortized loan flotation costs" records the unamortized portion of the cost of discounts and commissions incurred in the issuance of loans. The following is a summary of the transactions for the year under review:

Balance, April 1, 1961	\$ 130,741,000
Add: Costs incurred in issuing new loans during the year	36,224,000
	<hr/>
	166,965,000
Deduct:	
Amortization charges included in 1961-62 Expenditure	\$ 44,998,000
Adjustments due to cancella- tions, exchanges and conver- sions	635,000
	<hr/>
	45,633,000
Balance, March 31, 1962	<hr/> <hr/> \$ 121,332,000

126. *Suspense accounts.* The \$136,000 shown for this item on the assets side of the statement represents the balance, unchanged during the year under review, of the Cheque Adjustment Account, which reflects the total of the individual balances that remained unadjusted in the process of reconciling payments to the chartered banks for redemption of paid cheques, with the totals of the relative cheques as subsequently determined. The balance includes amounts relating to the fiscal years 1942-43 to 1960-61.

127. *Inactive loans and investments.* The \$94,824,000 shown for this item in the Statement at March 31, 1962 comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act	\$ 49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,854,000
Balance arising out of implementation of guaran- tee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China) ..	14,470,000
Loan to Province of Saskatchewan, in 1908, for the purchase of seed grain	74,000
	<hr/>
	\$ 94,824,000

There were no changes in these balances during the year under review.

The \$74,000 shown as a loan to the Province of Saskatchewan represents the balance remaining of advances totalling \$861,000 made to the Province under the authority of Vote 281, Supplementary Estimates 1907-08. Under this authority, the federal government undertook to pay for seed grain supplied to settlers in Saskatchewan and the total amount advanced was to be paid back by the Province in 1909. In practice, however, the Province has remitted yearly only what it received from the farmer debtors.

Paragraph 123 refers to other loans and investments and shows the size of our subscriptions to the capital and working capital advances and loans to international organizations. It also indicates Veterans' Land Act advances, loans to provincial governments as well as loans to the old age security fund and the unemployment insurance commission.

You will perhaps be interested in noting that at the top of page 65 there is a list of the balances comprising the \$659 million representing subscriptions to the capital in the International Monetary Fund, the International Bank, the International Development Association and the International Finance Corporation.

Mr. McLEAN (*Charlotte*): I should like to ask a question in respect of our subscription to the International Monetary Fund. Does Canada receive any interest on the deposits it makes to the International Monetary Fund?

Mr. HENDERSON: Mr. Long can answer that question, sir.

Mr. LONG: I am not completely familiar with the international transactions in this regard but I believe that things are handled on a non-interest basis. I believe they are handled on a cash or currency basis.

Mr. HENDERSON: We point out here that during the year 1962 Canada's subscription to the International Monetary Fund was increased again through the issue of additional non-interest bearing notes following revaluation of the Canadian dollar portion of the subscription.

Mr. McLEAN (*Charlotte*): Do we have gold to put up in respect of the International Monetary Fund?

Mr. LONG: There is some gold put up, yes.

Mr. McLEAN (*Charlotte*): How much gold do we have in this regard?

Mr. HENDERSON: I do not think I have a figure in that regard, sir.

The CHAIRMAN: Perhaps we could ask Mr. Henderson to obtain that information so we will have it when the deputy minister of finance appears before this committee.

Mr. HENDERSON: We could make a statement in that regard if you wish.

Mr. McLEAN (*Charlotte*): What do you consider to be current assets?

Mr. HENDERSON: The things considered as current assets are shown in paragraph 118 to which I referred at page 61 including departmental working capital advances and revolving funds, securities held for the securities investment account and miscellaneous items.

Mr. McMILLAN: Does Canada only put up a fraction of the subscription and guarantee the rest?

Mr. HENDERSON: I would have to give you a precise statement in that regard Dr. McMillan. I do not have that information at hand.

The CHAIRMAN: If it is the desire of this committee Mr. Henderson and Fund?

Mr. McMILLAN: Yes.

The CHAIRMAN: If it is the desire of this committee Mr. Henderson and his officials can obtain the full answer to that question.

Mr. HENDERSON: I will be happy to provide you with that information at our next meeting.

Mr. McLEAN (*Charlotte*): In respect of the advances to the exchange fund I am wondering whether we have any reserves against our currency or do we have reserves against our foreign debts?

Mr. HENDERSON: The exchange fund represents our advances and holdings in foreign currency, principally United States dollars, and gold which is the support for our currency. You may recall that a statement is being prepared by the Minister of Finance to be filed with this committee, outlining the operation of that fund. This statement was promised to this committee last December and is due for tabling momentarily. When that statement is on the record I think many of your questions will be answered.

Mr. McLEAN (*Charlotte*): I should like to know whether this gold and dollar exchange is held against our currency or held against our balance of payments.

Mr. HENDERSON: It is related to both and would have to be related to both, but I would urge you to hold your questions in this regard in abeyance until the statement of the minister is presented. He has gone to great pains to prepare this statement. I have not seen the statement yet but I know what material has gone into it, and know that it is to be filed very soon. In fact I think Mr. Bryce has in touch with you, Mr. Baldwin, has he not?

The CHAIRMAN: Yes.

Mr. McLEAN (*Charlotte*): We will be given some explanation in this regard?

Mr. HENDERSON: Mr. Bryce will attend a meeting of this committee to explain that statement.

The CHAIRMAN: Mr. Bryce appeared before this committee last year at which time it was understood he would appear again when he had completed this statement in order to give us a complete explanation.

Mr. Côté (*Interpretation*): Mr. Chairman, I am very interested personally in getting details regarding our reserves in the International Monetary Fund and I hope that the Minister of Finance or the deputy minister will be able to give us the necessary information in respect of this matter involving our international funds held in the International Monetary Fund and explain the fact that we accept money which is convertible in gold. I would be in favour of accepting non-convertible currencies. It seems to me this would help the present monetary exchange difficulties.

(Text)

The CHAIRMAN: Mr. Côté, Mr. Bryce will be appearing before this committee and I am sure at that time he will be prepared to answer any questions in respect of this subject.

Are there any further questions in respect of this particular group of paragraphs?

Mr. HARKNESS: In respect of the loan to the province of Saskatchewan in 1908 for the purchase of seed grain I thought arrangements had been made three or four years ago to write off this whole item. I note the item appears again at page 66 of your report under the heading "Inactive Loans and Investments".

Mr. TARDIF: That province certainly received long terms in respect of this loan, did it not?

Mr. HARKNESS: I understood arrangement was made for this whole loan to be written off in view of the fact that the individuals who received this seed grain are at this stage either dead or between 80 and 90 years of age. I am not sure whether arrangements were made to write off these loans but certainly discussions were held in this regard.

Mr. HENDERSON: I think during an earlier discussion, perhaps in 1961, such a suggestion was made; the latest information we have is that contained in the paragraph at the bottom of page 66. In respect of writing off loans of this character, the government probably has good reasons for not writing them off the books. Although they may be inactive they like to keep them there because possible subsequent developments may enable them to effect some form of collection.

Mr. HARKNESS: In my opinion, the printing of these things would involve a waste of money. Eighty five years of age would be about the minimum age of any person who would owe money, if he is still alive.

Mr. TARDIF: Is there a possibility of collecting that from the estate of some of these wealthy Saskatchewan farmers?

Mr. HARKNESS: Any moneys which could have been collected from their estate would have been collected many years ago.

As I said, Mr. Chairman, I think it is a waste of money to keep accounts on this and I think we should suspend our actions in this regard.

Mr. FORBES: I should inform Mr. Tardif that when farmers die they take their estates with them.

Mr. HARKNESS: You see, the advances were made nearly—

An hon. MEMBER: In 1880.

Mr. HARKNESS: —60 years ago.

Mr. HENDERSON: These were loans made to provincial authorities as distinct from the individual. It might be interesting to institute some further inquiries in this connection, in answer to your questions.

The CHAIRMAN: I do think a lot of the individual loans were written off in the last two or three years. In respect of certain clients I had I know there was some question whether these would be included in those loans made to individuals wherein liens were filed. However, liens were subsequently discharged within the last few years. We may look into this further.

Mr. WINCH: I think it might be advisable at least to get some statement from a government official on these matters because you have one there for 1919 in respect of Greece and Roumania. I would just like to find out why they think they should hold loans on the books going back to 1908.

Mr. McLEAN (*Charlotte*): Is this not supposed to be paid by the provinces?

Mr. HENDERSON: Yes, not by the individual. We could obtain this information and give a larger statement on this point at the next meeting, if that would be satisfactory to you.

Mr. TARDIF: Is there not a period for this type of loan after which they are uncollectible because of the elapsed time?

Mr. HENDERSON: I think not, sir; that would be left to the decision of the government. As I mentioned, they are reluctant to write these loans off because there might be a turn of events perhaps in their relationship with a foreign country or a province whereby they could achieve some degree of collection.

Mr. TARDIF: Then, the regulation which exists in respect of private business does not apply to this. I am referring to the seven year period.

Mr. HENDERSON: There is a statutory limitation for private business but that does not apply here.

Mr. TARDIF: I was referring to the statutory limitation.

Mr. CARDIFF: This was due no doubt to a C.C.F. government. Perhaps with a different government we could collect this year.

The CHAIRMAN: Paragraph 128 is next:

Liabilities

128. The following table lists the liabilities at March 31, 1962 by main headings in the statement of assets and liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1960	March 31, 1961	March 31, 1962
Current and demand liabilities	\$ 1,099,057,000	\$ 1,147,561,000	\$ 1,234,081,000
Deposit and trust accounts	242,673,000	239,667,000	266,624,000
Annuity, insurance and pension accounts	3,565,376,000	3,955,510,000	4,245,942,000
Undisbursed balances of appropriations to special accounts	96,620,000	104,493,000	115,135,000
Deferred credits	83,961,000	79,073,000	94,991,000
Suspense accounts	8,528,000	8,618,000	5,305,000
Unmatured debt	15,890,152,000	16,067,915,000	16,945,736,000
	<u>\$20,986,367,000</u>	<u>\$21,602,837,000</u>	<u>\$22,907,814,000</u>

129. *Current and demand liabilities.* The balances comprising this item in the statement at March 31, 1962, with the comparable balances at the close of the two previous years, were:

	March 31, 1960	March 31, 1961	March 31, 1962
Non-interest bearing notes payable to the International Monetary Fund and the International Development Association	\$ 376,000,000	\$ 383,660,000	\$ 372,032,000
Accounts payable	245,099,000	221,396,000	280,711,000
Outstanding Treasury cheques	228,768,000	251,741,000	265,658,000
Interest accrued	137,622,000	154,016,000	174,601,000
Other balances	111,568,000	136,748,000	141,079,000
	<u>\$ 1,099,057,000</u>	<u>\$ 1,147,561,000</u>	<u>\$ 1,234,081,000</u>

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130. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1962 in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1960	March 31, 1961	March 31, 1962
Provincial tax collection agreements	—	—	\$ 37,986,000
Indian trust funds	\$ 29,224,000	\$ 28,516,000	28,523,000
Post Office Savings Bank	29,372,000	28,513,000	27,365,000
Deposits by Crown corporations	12,625,000	19,400,000	24,175,000
Contractors' security deposits	27,705,000	21,804,000	18,003,000
Contractors' holdbacks .	17,398,000	15,635,000	17,793,000
Korean operations pool .	16,104,000	16,117,000	16,117,000
United States of America	33,927,000	36,686,000	12,228,000
Canadian Arsenals Limited Pension Fund ...	—	—	12,158,000
Canadian Pension Commission (Administration trust fund)	10,281,000	10,980,000	12,087,000
Guarantee deposits	14,437,000	13,758,000	10,403,000
Other balances	51,600,000	48,258,000	49,786,000
	<u>\$ 242,673,000</u>	<u>\$ 239,667,000</u>	<u>\$ 266,624,000</u>

Mr. HENDERSON: On page 67 we turn to the liabilities and show the composition of these.

First of all, there are the current and demand liabilities and then the deposit and trust accounts. I do not think there is anything unusual in these for this year.

The CHAIRMAN: Paragraph 131 follows:

131. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1962 in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1960	March 31, 1961	March 31, 1962
Government annuities .	\$ 1,156,867,000	\$ 1,199,123,000	\$ 1,235,305,000
Public Service Super-annuation Account ..	1,229,620,000	1,468,848,000	1,586,929,000
Canadian Forces Super-annuation Account ..	1,053,011,000	1,155,333,000	1,279,239,000
Other balances	125,878,000	132,206,000	144,469,000
	<u>\$ 3,565,376,000</u>	<u>\$ 3,955,510,000</u>	<u>\$ 4,245,942,000</u>

The following is a summary of the transactions in the government annuities account during the year under review:

Balance, April 1, 1961		\$ 1,199,123,000
Add:		
Premiums received	\$ 43,479,000	
Interest credits	46,011,000	
		<u>89,490,000</u>
		1,288,613,000
Deduct:		
Vested annuity and commuted value payments and refunds	53,016,000	
Transfer to Revenue of the excess of the Fund over the valuation of annuities outstanding	292,000	
		<u>53,308,000</u>
Balance, March 31, 1962		<u>\$ 1,235,305,000</u>

A summary of the transactions in the public service superannuation account during the year ended March 31, 1962 is as follows:

Balance, April 1, 1961		\$ 1,468,848,000
Add:		
Contributions by participants	\$ 53,579,000	
Contributions by Government	49,256,000	
Interest credits	61,169,000	
Other credits	270,000	
		<u>164,274,000</u>
		1,633,122,000
Deduct:		
Annuity payments	39,104,000	
Withdrawals of contributions	6,590,000	
Other charges	499,000	
		<u>46,193,000</u>
Balance, March 31, 1962		<u>\$ 1,586,929,000</u>

Reference is made in paragraph 144 concerning the composition of the balance at credit of this account.

The following is a summary of the transactions in the Canadian forces superannuation account during the year ended March 31, 1962:

Balance, April 1, 1961		\$ 1,155,333,000
Add:		
Contributions by participants	\$ 33,629,000	
Contributions by Government	55,985,000	
Interest credits	48,050,000	
Other credits	331,000	
		<u>137,995,000</u>
		1,293,328,000

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Deduct:

Annuity payments	7,321,000	
Gratuities and withdrawal allowances ..	6,690,000	
Other charges	78,000	
		<u>14,089,000</u>
Balance, March 31, 1962		<u>\$ 1,279,239,000</u>

A comment is made in paragraph 145 regarding the composition of the balance at credit of this account.

Including in the \$144,469,000 shown for "other balances" at March 31, 1962 in the table given above with respect to "annuity, insurance and pension accounts", is the \$14,535,000 uninvested portion of the unemployment insurance fund on deposit with the receiver general. A summary of the transactions in the fund during the year under review, in comparison with the corresponding amounts for the two previous fiscal years, is given in paragraph 200.

Also included in the "annuity, insurance and pension accounts" is a balance of \$1,564,000 standing to the credit of the old age security fund at March 31, 1962. The following is a summary of the transactions relating to the fund during the year in comparison with the corresponding amounts for the two previous years:

	1959-60	1960-61	1961-62
Collections of tax			
On sales	\$ 270,000,000	\$ 270,231,000	\$ 284,879,000
On personal incomes ...	185,550,000	229,400,000	258,950,000
On corporation incomes	91,336,000	103,500,000	100,125,000
	<u>546,886,000</u>	<u>603,131,000</u>	<u>643,954,000</u>
Payments of pensions under the			
Old Age Security Act ..	574,887,000	592,413,000	625,107,000
	<u></u>	<u></u>	<u></u>
Surplus or (deficiency)			
during the year	(28,001,000)	10,718,000	18,847,000
Preceding year's balance			
brought forward	—	(28,001,000)	(17,283,000)
	<u></u>	<u></u>	<u></u>
Balance at year-end	<u>\$ (28,001,000)</u>	<u>\$ (17,283,000)</u>	<u>\$ 1,564,000</u>

As the pension rate was increased from \$55 to \$65 per month effective February 1, 1962, the fund bore the cost of the pensions at the increased rate for only the last two months of the fiscal year under review.

The balance at credit of the members of parliament retiring allowances account is also included among the balances comprising the "annuity, insurance and pension accounts" item. Comments regarding the operation of this Account are made in paragraph 147.

Mr. HENDERSON: On page 68, paragraph 131, the balances making up this item of annuity insurance and pension accounts, at March 31, 1962 in comparison with the corresponding balances at the close of the two previous years are given in the table at page 68. It is interesting that the government carries amounts due under the government annuities, and it shows the public service superannuation account, the Canadian forces superannuation account, and then we show the summary of the transactions of these accounts; that is, the income and the outgo.

If members have not any questions on this I will proceed to paragraphs 132, 133 and 134.

132. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances comprising this item in the statement of assets and liabilities, compared with the corresponding balances at the close of the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Colombo Plan Fund	\$ 62,966,000	\$ 67,533,000	\$ 77,626,000
Railway Grade Crossing Fund	31,196,000	34,050,000	33,754,000
National Capital Fund ..	2,360,000	2,810,000	3,660,000
Other	98,000	100,000	95,000
	<u>\$ 96,620,000</u>	<u>\$ 104,493,000</u>	<u>\$ 115,135,000</u>

During the year ended March 31, 1962 an amount of \$50 million, provided by vote 89 under the Department of External Affairs, was credited to the account for the Colombo Plan, while expenditures totalling \$39,907,000 were charged to the account for aid given to countries in south and south-east Asia.

Amounts totalling \$10 million, provided under section 265 of the Railway Act, R.S., c.234, and vote 448 under the Department of Transport, were credited to the account for the railway grade crossing fund during 1961-62, while expenditures totalling \$10,296,000 were incurred in aiding in the cost of installation of protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During the year ended March 31, 1962 an amount of \$5,100,000, provided by vote 377 under the Department of Public Works, was credited to the account for the national capital fund, while amounts totalling \$4,250,000 were charged to the account for payments to the National Capital Commission to finance the cost of capital projects approved by the governor in council.

133. *Deferred credits.* The following is an analysis of this item at the close of the 1961-62 fiscal year and the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946..	\$44,174,000	\$44,174,000	\$44,174,000
Deferred interest on loans to The St. Lawrence Seaway Authority	19,427,000	19,427,000	33,716,000
Credits arising from the recording of agreements of sale of Crown assets	13,554,000	9,955,000	8,772,000
Equity in agency account of Crown Assets Disposal Corporation	5,603,000	4,929,000	7,242,000
Other balances	1,203,000	588,000	1,087,000
	<u>\$83,961,000</u>	<u>\$79,073,000</u>	<u>\$94,991,000</u>

The only significant change during the year was the increase of \$14,289,000 in the deferred interest on loans to The St. Lawrence Seaway Authority. This deferred interest is payable by the authority over a 46 year period commencing in 1964, along with repayments of principal.

134. *Suspense accounts.* The reduction of \$3,313,000 during the year in this item on the liabilities side of the statement was largely accounted for by the reduction of \$3,190,000 in the balance at credit of the replacement of materiel account maintained pursuant to section 11 of the National Defence Act. During the year under review credits to the account for the proceeds of sales to other countries of "material not immediately required" totalled \$2,810,000 while an amount of \$6,000,000 was applied towards the procurement of replacement materiel.

On page 70 we get into the undisbursed balances of appropriations to special accounts. In this connection you might want to spend more time in the 1963 report because the figures there will be up to date. Paragraph 135 follows:

135. *Unmatured debt.* A summary of the unmaturred debt outstanding at March 31, 1962, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1960	March 31, 1961	March 31, 1962
Bonds			
Payable in Canada	\$ 13,563,341,000	\$ 14,002,751,000	\$ 14,930,571,000
Payable in London	51,811,000	31,989,000	31,990,000
Payable in New York	150,000,000	98,175,000	98,175,000
	<u>13,765,152,000</u>	<u>14,132,195,000</u>	<u>15,060,736,000</u>
Treasury Bills (not exceeding 180 days)			
	<u>2,125,000,000</u>	<u>1,935,000,000</u>	<u>1,885,000,000</u>
	<u>\$ 15,890,152,000</u>	<u>\$ 16,067,915,000</u>	<u>\$ 16,945,736,000</u>

The increase of \$928 million in unmaturred bond debt payable in Canada was the amount by which new borrowings of \$3,456 million during the year exceeded redemptions of \$2,528 million of prior issues. Canada savings bonds accounted for \$1,038 million of the new borrowings and \$538 million of the redemptions. Also included was the \$62 million unredeemed portion of a special issue of non-marketable bonds to the Unemployment Insurance Commission in exchange for other securities previously held by the unemployment insurance fund (see paragraph 148).

Issues payable in London are valued on the basis of £1 sterling equals \$2.80 Canadian while those payable in New York are valued on a dollar for dollar basis.

Of the bonds outstanding at March 31, 1962, the following issues, all payable in Canada, fall due within the current fiscal year:

Loan of 1961 due May 1, 1962	\$ 100,000,000
Loan of 1960 due June 15, 1962	190,000,000
Canada savings bonds of 1951 due August 1, 1962	24,287,400
Loan of 1961 due August 1, 1962	335,000,000
Loans of 1959 and 1960 due October 1, 1962	268,497,000
Loan of 1960 due December 1, 1962	140,000,000
Loan of 1961 due December 15, 1962	375,000,000
Loan of 1959 due January 1, 1963	100,000,000
	<u>\$ 1,532,784,400</u>

As indicated on page 71 we wind up by showing the position of unmatured debt.

Net Debt

136. With the liabilities amounting to \$22,907,814,000 (paragraph 128) and the assets to \$9,679,677,000 (paragraph 117), the net debt at March 31, 1962 was \$13,228,137,000. The following is a statement of the net debt account for the year under review:

Balance, April 1, 1961	\$ 12,437,115,000
Add—Deficit for the fiscal year 1961-62:	
Expenditure	\$ 6,520,646,000
Revenue	5,729,624,000
	<u>791,022,000</u>
Balance, March 31, 1962	<u>\$ 13,228,137,000</u>

Contingent Liabilities

137. A note on the liabilities side of the statement of assets and liabilities gives the totals of the several classes of contingent liabilities outstanding at the year-end, and makes reference to the appendix to the public accounts (Volume I, page 167) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts which were outstanding at March 31, 1962, in comparison with the corresponding amounts at the close of the two preceding years:

	March 31, 1960	March 31, 1961	March 31, 1962
Railway securities guaranteed as to principal and interest	\$1,430,051,000	\$1,672,634,000	\$1,636,100,000
Deposits maintained by chartered banks in Bank of Canada	619,905,000	656,295,000	696,008,000
Insured loans made by approved lenders under the National Housing Act, 1954	2,671,918,000	3,017,404,000	3,640,000,000
Guarantees under Export Credits Insurance Act, Part I	96,181,000	109,934,000	291,700,000
Loans made by chartered banks to Canadian Wheat Board	109,396,000	125,558,000	113,555,000
Other contingent liabilities of determinate amounts	67,552,000	89,783,000	66,299,000
	<u>\$4,995,003,000</u>	<u>\$5,671,608,000</u>	<u>\$6,443,662,000</u>

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to the 1954 act.

Then, you will see on page 72, paragraph 136, how the net debt has changed during the year; that is to say, how it has been increased by the deficit on operating account of \$798 million and at March 31, 1962, stood at \$13,228,137,000. Certain contingent liabilities then follow. Paragraphs 138, 139 and 140 follow:

Comments on Assets and Liabilities

138. Section 64 of the Financial Administration Act requires that there be included in the public accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

139. The statement of assets and liabilities at March 31, 1962 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the public accounts:

With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule to the statement of assets and liabilities.

While the statement of assets and liabilities may seem to correspond in appearance to the balance sheet of a large commercial undertaking, it is important for the reader to understand that it is not a balance sheet within the generally accepted meaning of the term. This is because the statement in its present form omits a number of items which would normally appear as assets on a commercial balance sheet while at the same time including others which are of doubtful value. Similarly, certain items appear as liabilities which are not generally found as such in commercial practice. The manner in which the excess of liabilities over net assets is shown as a "net debt" item on the assets side of the statement is confusing; the term would be more understandable were it used to describe the net result shown by a statement exhibiting the outstanding debt at the termination of the fiscal year.

The principal reason for the differences mentioned above stems from the fact that the governing legislation, namely, the Financial Administration Act, contemplates the accounting system being maintained on the cash basis instead of the accrual basis employed in commercial

practice. This means that revenues are recorded only when they are received while the cost of goods and services is recorded only when they are paid for, subject to the modifications and exceptions recited in the above explanation. Commercial practice, on the other hand, almost exclusively employs accrual accounting, that is to say, revenues are recorded in the period in which they are earned or accrue while the cost of goods and services is recorded on the books during the period when they are used regardless of when they are paid for.

The unique power given to the Minister of Finance to include in the statement of assets and liabilities such assets and liabilities as in his opinion are required to show the financial position is in contrast to the limitations imposed, for example, on the chief executive officer of a commercial undertaking which must include in its balance sheet such assets and liabilities as are prescribed by federal and provincial legislation or called for by generally accepted accounting practice.

Over the years the audit office has subscribed to the view that little advantage would be gained by attempting to convert the accounting system of the government from the cash basis to the accrual basis. It has recognized that the executive government must know at all times what funds are required to be raised through taxation to meet expenditures expected to come in course of payment within the fiscal year. Parliament in turn must always be basically interested in examining the country's financial needs in terms of cash required when considering budget proposals and estimates of proposed expenditures. The financial position at the termination of the fiscal year is accordingly reflected in the statement of assets and liabilities on the modified cash accounting basis used by the Department of Finance.

As will be evident from some of the following comments in this section of the report, we believe that the statement and its contents can be improved from the standpoint of clarity and presentation so as to achieve maximum disclosure of facts and figures for the information of parliament and the public.

140. *Accounts receivable.* As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the statements of assets and liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding totals at the close of the preceding year, is given in the departmental sections of Volume II of the public accounts (with the exception of the taxation division of the Department of National Revenue). There is, however, one place in the public accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. It would be informative to parliament were an appendix giving this information included in the public accounts in future.

It has not been the practice over the years to include in the public accounts any information regarding amounts receivable by the taxation division of the Department of National Revenue, but it seems desirable that such information be made available to parliament.

STANDING COMMITTEE

The following summary of accounts receivable includes the totals given in the departmental sections of the public accounts at March 31, 1962, together with totals of balances receivable as at February 28, 1962 by the taxation division, as provided by that division:

Previous Years

Department	Current year	Collectable	Uncollectable	Total
Agriculture	\$ 715,620	\$ 795,611	\$ 51,466	\$ 1,562,697
Citizenship and Immigration	28,256	323,633	312,451	664,340
Defence Production ...	4,187	13,664	259,329	277,180
Justice	150,627	2,432	30	153,089
National Defence	4,565,080	965,958	185,077	5,716,115
National Health and Welfare	904,453	274,816	169,825	1,349,094
National Research Council	101,713	14,305	150	116,168
National Revenue—				
Customs and Excise Division	4,856,019*		2,304,292*	7,160,311
Taxation Division ...	187,320,412*		15,825,226*	203,145,638
Northern Affairs and National Resources	99,187	14,114	18,617	131,918
Public Works	1,139,578	262,103	44,753	1,446,434
Royal Canadian Mounted Police	261,463	4,317	23,694	289,474
Trade and Commerce ..	114,929	8,936	7,054	130,919
Transport	3,473,178	2,959,651	7,309	6,440,138
Veterans Affairs	3,359,409	2,571,060	821,019	6,751,488
Other departments	140,955	59,963	50,920	251,838
	<u>\$ 207,235,066</u>	<u>\$ 8,270,563</u>	<u>\$ 20,081,212</u>	<u>\$ 235,586,841</u>

* These totals relate to both current and previous years.

The accounts receivable totals shown in the above table were after writing off the following balances during the year under review:

Uncollectable debts of \$1,000 or less deleted from the accounts under the authority of section 23 of the Financial Administration Act	\$ 809,991
(Agriculture, \$17,348; Citizenship and Immigration, \$62,804; National Defence, \$20,807; Customs and Excise Division, \$34,943; Taxation Division, \$629,107; Transport, \$6,079; Veterans Affairs, \$31,205; and other departments, \$7,698)	
Uncollectable debts in excess of \$1,000 deleted from the accounts under the authority of Vote 710, Appropriation Act No. 4, 1962	3,703,795
(Agriculture, \$3,787; Citizenship and Immigration, \$97,226; Defence Production, \$8,282; Finance, \$116,747; National Defence, \$116,903; Taxation Division, \$3,299,327; Northern Affairs and National Resources, \$16,057; Transport, \$21,612; and Veterans Affairs, \$23,854)	
	<u>\$ 4,513,786</u>

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the statement of assets and liabilities, they are nonetheless debts due to the crown, and their accurate recording and ultimate collection are prime responsibilities of the departments concerned.

While we have found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this frequently does not apply in the case of departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to remove the possibility that now exists of accounts being tampered with and collections misappropriated.

Mr. HENDERSON: I might now say a word about the section here on comments on assets and liabilities, beginning at page 73.

Here I have sought to discuss quite an important subject on the accounting and financial side of government, namely the difference between the cash and the accrual basis, which is something the royal commission on government organization dealt with, while at the same time, I have sought to describe the nature of the statement of assets and liabilities in what I hope might be regarded as laymen's terms.

At page 75 we are showing here for the first time the accounts receivable. The way that the government keeps its accounts receivable is in memorandum form; that is to say, they are not on the books as they are under accrual accounting in private business where you have accounts due from the customers and have a reserve for uncollectable moneys and show these on the books. Here they are kept in memorandum form, and we have put together for the first time a summary to show you something of their size. You will see they are quite considerable, the largest being those of the taxation division of the Department of National Revenue where, at the end of 1962, they were to the order of \$203 million, of which they estimated some nearly \$15 million would be uncollectable from previous years. We have more to say about this in the 1963 report. However, this summary at page 75 does serve to show the size of these accounts receivable. Now, they are writing off a number of these during the year, as you will see on page 76, which shows that accounts written off during the year were of the order of \$4½ million.

Mr. WINCH: In respect of the taxation division, do you happen to know whether the majority of that is business or individuals?

Mr. HENDERSON: Both. As a matter of fact, we discussed this paragraph in the committee last December, and it was at that time I drew your attention to the last paragraph on page 76, about the importance of maintaining an effective control over these memorandum accounts receivable because since they are not on the books you have to be extra careful in seeing they are at all times fully accounted for.

The CHAIRMAN: Gentlemen, it is five minutes to eleven; members of the defence committee are moving in, in a pincers movement on us.

Mr. TARDIF: In paragraph 142 I note there is a loan to the town of Oromocto for \$4,450,000. I did not think the federal government loaned money to towns. Is there any explanation for this?

Mr. HENDERSON: We dealt with this earlier, where we were at paragraph 81. We have had this up for discussion.

Mr. TARDIF: I guess I was not here.

Mr. HENDERSON: I do not know whether you were or not. It was referred to earlier in paragraph 81.

The CHAIRMAN: Gentlemen, is it agreed we should print as an appendix to these proceedings the blank "Report of Surplus" and "Offer Form" of crown assets disposal corporation for those who were not here?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will adjourn now until 9.30 on Thursday morning, at which time we will be meeting in room 200, owing to certain changes being made. There will be just the one meeting in room 200.

GENERAL CONDITIONS OF SALE

1. CROWN ASSETS DISPOSAL CORPORATION (hereinafter referred to as "THE CORPORATION") reserves the right to withdraw from the sale any property which has not been delivered to the purchaser without incurring any liability except to refund to the purchaser any amount paid on account of such property.
2. The CORPORATION further reserves the right to cancel the sale without liability if the property or any part thereof is purchased on behalf of any principal whose name and address have not been communicated to the CORPORATION in writing prior to the sale.
3. The Purchaser, upon acceptance of this offer by the CORPORATION, shall remove the property within thirty (30) days after receiving notice from the Custodian that the property is ready for removal.
4. In the event of the Purchaser failing to remove the property within thirty (30) days after receiving notice from the Custodian that the property is ready for removal the CORPORATION, without prejudice to any other remedies, may cancel the contract without notice to the Purchaser and retain as liquidated damages any deposit and any amount paid on account of the property, and the Purchaser shall lose all claim to and interest in the property and may be held responsible for all loss, cost and expense incurred by the CORPORATION due to the Purchaser's failure or default.
5. Where goods are sold by weight, their weight shall be determined by weighing them at or near loading point on a municipal, railway or other suitable scale selected by a representative of the CORPORATION or of the custodian.
6. The purchaser shall not be entitled to contest the accuracy of the CORPORATION's shipping documents unless notice in writing setting forth particulars of the purchaser's claim shall have been despatched to the CORPORATION at its address as shown on the face of this form within 72 hours after the delivery of the material in respect of which, such claim is made and unless such material shall have been held on the purchaser's premises until inspection by an authorized representative of the CORPORATION.
7. The purchaser shall be responsible for any damage to surrounding property, including buildings, resulting from the removal of the property sold, and shall hold harmless and indemnify the CORPORATION and HER MAJESTY THE QUEEN IN RIGHT OF CANADA against any claim resulting from such damage.
8. The CORPORATION will not be liable for loss, damage or destruction from any cause whatsoever of the property sold; but, should any of such property be lost or destroyed during the period allowed for removal and prior to the actual removal or shipment thereof, the CORPORATION will refund to the purchaser any moneys paid as the price of or otherwise on account of the property so lost or destroyed.
9. The CORPORATION warrants its title or the title of HER MAJESTY THE QUEEN IN RIGHT OF CANADA to the property sold and delivered but makes no other warranty, express or implied, by way of description of the property or otherwise.
10. Sales are subject to such adjustment, upon the request of the purchaser, as the CORPORATION may in its discretion, determine to be equitable under the circumstances. Requests for any such adjustments will be considered only if filed within thirty days after the date of the acceptance of offer (or such other period as may at any time be specifically allowed in writing). The decision of the CORPORATION shall in all cases be final.
11. No member of the House of Commons of Canada shall be admitted to any share or part of the contract or to any benefit to arise therefrom.
12. Sale is made upon the express condition that no bribe, gift, gratuity or other inducement shall have been paid, given, promised, held out or offered to any official or employee of HER MAJESTY or of the CORPORATION for the purpose of, or with a view to obtaining the acceptance of the purchaser's tender or otherwise in connection with the purchase by the purchaser of the property sold; and, further, on the express condition that the purchaser shall not have employed any person to solicit or secure the sale to him of the property sold upon any agreement for a commission, percentage, brokerage or contingent fee payable by or on behalf of the purchaser. Should either of these conditions not be fulfilled, the CORPORATION shall have the right to cancel the sale without liability.
13. If the property sold consists of buildings, structures, installations or any of them, which the purchaser is, under the provisions of the offer, required to remove from the land on which they are erected or installed, conditions 3, 4, 5, 6 and 8 shall not apply but the following conditions shall apply:
 - (a) In the event of the purchaser failing to complete, to the satisfaction of the CORPORATION, the removal of the property and the performance of all restoration and other work, if any, as required by and within the time specified in the offer, the CORPORATION, without prejudice to any other right or remedy which it may have, shall be entitled:
 - (i) To take possession of and/or to dispose of any or all of the property not so removed; and/or
 - (ii) To complete in whole or in part any work which the purchaser has failed to complete and to hold the purchaser responsible for all loss, cost and expense thereby incurred by the CORPORATION or otherwise due to the Purchaser's failure or default;
 And the purchaser shall lose all claim to and interest in the property so taken possession of or disposed of and shall have no claim to any money paid or deposited by him in respect of the property.
 - (b) The CORPORATION will not be liable for loss, damage or destruction from any cause whatsoever of the property sold.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

Public Accounts, Volumes I, II and III (1962)
Report of the Auditor General to the House of Commons—1962

THURSDAY, JUNE 18, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif
and Messrs.

Basford,	Grafftey,	Rinfret,
Beaulé,	Gray,	Rochon,
Berger,	Hales,	Rock,
Cameron (<i>High Park</i>),	Harkness,	Rondeau,
Cameron (<i>Nanaimo-</i> <i>Cowichan-The Islands</i>),	Lessard (<i>Saint-Henri</i>),	Ryan,
Cardiff,	Loiselle,	Scott,
Chaplin,	Mandziuk,	Skoreyko,
Côté (<i>Chicoutimi</i>),	McLean (<i>Charlotte</i>),	Smith,
Crouse,	McMillan,	Southam,
Drouin,	McNulty,	Stefanson,
Dubé,	Muir (<i>Lisgar</i>),	Tucker,
Fane,	O'Keefe,	Valade,
Forbes,	Pigeon,	Wahn,
Francis,	Pilon,	Whelan,
Frenette,	Regan,	Winch—50.
Gendron,	Richard,	
	Ricard,	

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 18, 1964.

(8)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Crouse, Fane, Forbes, Francis, Frenette, Hales, Harkness, McMillan, O'Keefe, Pilon, Ryan, Scutham, Stefanson, Tardif, Wahn—(17).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Millar, Stokes, Crowley, Laroche, Douglas and Smith, of the Auditor General's office.

The Chairman referred to an editorial in today's *Montreal Gazette* dealing with shortage of staff in the Auditor General's office.

Mr. Henderson made a correction to his evidence of Tuesday, June 16, relating to paragraph 115, *Non-productive payments*. (*See Evidence*)

The Auditor General supplied answers to questions by Messrs. Tardif, McLean (*Charlotte*) and McMillan at sitting of June 16. (*See Evidence*)

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

Mr. Henderson reviewed paragraphs 141 to 201 inclusive, including Crown Corporations, and was questioned thereon, assisted by this officials.

On paragraph 158, *Canadian Broadcasting Corporation*,

On motion of Mr. Harkness, seconded by Mr. Hales,

Resolved,—That the Public Accounts Committee call officials of the C.B.C. before the Committee in order to examine into the Accounts of the Corporation including the extent to which the recommendations of the Auditor General and the Glassco Commission have been implemented.

On paragraph 194, *Exchange Fund Account*, the Committee authorized the Chairman to arrange distribution of a memo on this subject, now being prepared by the Department of Finance, to all members of the Committee before the Deputy Minister of Finance makes his presentation.

Upon conclusion of the examination of the 1962 Report of the Auditor General, with the exception of the paragraphs which stood, the Chairman thanked Mr. Henderson and his officials.

Mr. Baldwin advised that the Steering Committee would meet next week to consider an interim report to the House.

The Chairman announced that the Committee would commence consideration of the report of the Auditor General for the fiscal year ended March 31, 1963, at its next sitting on Tuesday, June 23.

At 10.50 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, June 23, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, June 18, 1964.

The CHAIRMAN: Gentlemen, I see a quorum here. I call the meeting to order. I welcome you to these palatial surroundings, which is an appropriate place for the public accounts committee to sit from time to time. Before I call Mr. Henderson, I do not think it would be irrelevant for me to refer to an editorial which appears in this morning's *Montreal Gazette*, and which shows that the efforts of this committee and the evidence given before it do not go entirely unnoticed.

This is a very significant editorial, dealing with the fact that because of shortage of staff, the Auditor General has been unable, on some occasions, to do the work he feels he should have done, and would like to have done. It is a very significant editorial, and I just mention it to indicate that when we do bring to the attention of the committee matters which are of interest, they are picked up by the press, and this very judicious combination, I think, has some value.

I will ask Mr. Henderson to deal with some matters that were before the committee last Tuesday, and which he was to complete today.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, on Tuesday we dealt with paragraph 115 which sets out the 22 non-productive payments. I said the largest number of these, that is eight, had arisen in the Department of Northern Affairs and National Resources.

I have to tell you that this figure is incorrect, and I so conveyed my apologies yesterday to the deputy minister. The largest number, that is eight, arose, in point of fact, from our test checks in the Department of Public Works. The number for the Department of Northern Affairs and National Resources was one.

Also, last Tuesday Mr. Tardif asked me to obtain information regarding the advertising rates of the Ottawa newspapers. They are as follows:

Ottawa Citizen	28¢ per line
Ottawa Journal	24¢ " "
General rate 26¢ per line classified rate.	
Le Droit	18¢ " "

General rate 26¢ per line classified rate.

According to the rates shown in "Canadian Advertising", the guide used by the Comptroller of the Treasury's Office in auditing accounts, the *Ottawa Citizen* offers reduced rates under volume contracts, as follows:

1,000 lines	27¢
5,000 "	26¢
10,000 "	25¢
25,000 "	24¢

We understood that these special rates are for the local retail trade only and that the government does not receive any special rate regardless of its advertising volume.

Also, Mr. Chairman, at last Tuesday's meeting, Mr. MacLean asked how much gold Canada had to put up with respect to the international monetary fund, and Mr. McMillan asked if Canada put up only a fraction of her subscription and guaranteed the rest.

A brief answer is that Canada's subscription to the monetary fund at March 31, 1963, was the equivalent of \$550 million U.S. Under the Bretton Woods Agreement Act, 25 per cent of the subscription is required to be deposited with the fund in the form of gold and the remainder must be paid into the fund in Canadian currency, or in the form of demand notes. The amount which must be deposited in Canadian funds depends on the international monetary fund's need for Canadian currency but must be a minimum of one per cent of the subscription.

If any members of the committee would care to refer to page 138 of volume I of the public accounts for the year ended March 31, 1963, they will find there a fairly clear explanation with respect to Canadian subscription to the monetary fund.

I might now, Mr. Chairman, turn to the further work we have to do on my 1962 report, perhaps with the hope that we could clean it up this morning.

The CHAIRMAN: If you would, Mr. Henderson.

Mr. HENDERSON: Sixty paragraphs of my 1962 report remain to be considered by the committee, and my purpose this morning would be to take these in the order in which they follow from page 76 of this report and say a brief word about each one, allowing for any questions members may have.

The first of these is paragraph 141 dealing with advances to the exchange fund account. This was considered by the committee in 1961 and, as you will note from the quotation from its fifth report 1961, the Minister of Finance was asked to submit a report to the committee dealing with the desirability of writing off the deficiency existing in the account, which had amounted to \$154,042,000 at March 31, 1961 but which stood reduced to \$33,310,000 at March 31, 1962. Subsequent to that date (on May 2, 1962) the Canadian dollar was officially revalued at \$0.925 U.S., which has had the effect of eliminating the deficiency entirely.

While this official revaluation has had the effect of eliminating the deficiency which had given rise to the committee's request in 1961, I understand that the Minister of Finance has prepared a report on the exchange fund, dealing with its problems in light of more up to date developments. I hope, therefore, that it will be tabled shortly so that members can study the report and thus be in a position to discuss the matter with the deputy minister of finance who will be appearing before the committee at a later meeting.

I might point out to you that while the exchange fund is in good shape as long as the value of the Canadian dollar remains at 92½ cents U.S., or the U.S. dollar remains at 1.08 Canadian, a drop of only two cents in the value of the U.S. dollar would return the fund to a deficit position again raising the problem which was considered by the committee in 1961. I think that will be an important point to bear in mind when you consider the report which will be tabled by the Minister of Finance very shortly.

Paragraph 142 deals with loans to the town of Oromocto. Members will recall that earlier in our meetings consideration was given to paragraph 81 which showed that capital assistance loans made to the town outstanding on March 31, 1962 totalled \$4,026,890. The purpose of this note is to point out that it seems to be unrealistic to be recording these loans to the town of Oromocto as an asset item because the prospect of repayment is remote. As stated, operating costs of the town in 1961 totalled \$1,602,000 while its revenues amounted to only \$81,000.

Paragraph 143 shows how there continued to be included in the asset item "other loans and investments" an amount of \$1,710,566 representing the cumulative total of expenditures by the Department of Transport for the purchase of land in the township of Cornwall while at the same time this amount is included among assets shown on the balance sheet of the St. Lawrence Seaway Authority to which the land was transferred on April 1, 1959. Under the authority of Department of Transport Vote 26, Special appropriations Act 1963, assented to July 22, 1963, this amount has now been written off as a 1962-63 expenditure.

Paragraph 144 contains comments about the public service superannuation account, in particular certain bookkeeping entries made some years ago to bring the account more into line with the actuarial liability. As this account and the Canadian forces superannuation account (paragraph 145) are the subject of up-dated notes in the 1963 report, I would suggest we defer considering them until we reach paragraphs 124 and 125 in the 1963 report.

Paragraph 146 relates to the R.C.M.P. benefit trust fund which is a fund built up from all moneys accruing to members of the force, fees and costs, in connection with court appearances, serving summons, etc., and all gifts and bequests to the force. The Royal Canadian Mounted Police Act provides under section 23 that the fund is to be used for the benefit of members, former members and their dependents, as the governor in council may prescribe, for the making of loans to members of the force and as a reward, grant or compensation to persons assisting the force in the performance of its duties. In my 1961 report I pointed out that disbursements from the fund had consisted principally of distribution of an annual amount to each member of the force. In the fiscal year 1960-61 this had amounted to \$194,355 represented by payments to each member of the force of \$35. In the fiscal year 1961-62 the practice was continued excepting that the individual payments were reduced to \$30. As a result of our discussing this note with the commissioner and his associates, an advisory committee of senior officers was established to consider applications for loans and grants more in keeping with the provisions of the act. The fiscal year 1962-63 showed, however, that little demand seemed to have materialized for such loans and the individual payments were again continued at the level of \$35 to each member of the force.

Paragraph 147 explains the workings of the members of parliament retiring allowances account and is inserted principally for the information of members of the house of commons. Might I suggest that any discussion on this account be deferred until we reach paragraph 127 of my 1963 report.

Paragraph 148 deals with the bonds outstanding with the Unemployment Insurance Commission. Here it is pointed out that included in the figure of unmatured debt of Canada totalling \$16,945,736,000 at March 31, 1962, there stands included the \$62 million unredeemed portion of a special issue of non-marketable bonds to the unemployment insurance commission, furnished to the commission in exchange for marketable securities which were previously held in the unemployment insurance fund. This \$62 million unredeemed portion of the special issue of non-marketable bonds to the unemployment insurance commission bore, and I use the past tense advisedly, interest at $3\frac{3}{4}\%$, redeemable at par on 30 days notice and was available for withdrawal by the commission to meet current demands on the fund from time to time. Our criticism here is that we feel that the liability of the government to the unemployment insurance commission should not have been simply included on its books in the total figure of "unmatured debt". A liability like this is comparable to the government's liability to crown corporations and others for money on deposit by them with the receiver general and we believe that it would have been preferable to

have disclosed the liability in this manner. Of course these bonds have since been liquidated.

Paragraphs 149 to 155 outline the circumstances under which the financial statements of the various crown corporations are examined by the Auditor General. Paragraph 153 gives a listing of all of the crown corporations he examined for the financial years terminating during or coinciding with the fiscal year ended March 31, 1962. You will note from paragraph 154 that the accounts of seven corporations or other public instrumentalities were not examined by the Auditor General during the year.

We will now deal with the highlights of each of the crown corporations whose accounts were examined by the Auditor General. Unless unusual financial results are present, I will not comment on them because the financial results of all of these crown corporations for the next fiscal year, that is the financial year ending on March 31, 1963, are the subject of similar treatment in my 1963 report, and it is there I think you may wish to pause and discuss more of the operations of the corporations—and particularly so should you decide that as a committee you would like to examine into the accounts of any one of these corporations in more depth by asking its officers to appear before the committee as witnesses.

First under paragraph 156 we have Atomic Energy of Canada Limited. The balance sheet of this company at March 31, 1962 indicated that subject to the provision by parliament of an appropriation for the purpose, the depreciated value of the NRU reactor amounting to \$25,239,000 would be written off during the ensuing year. Although we record no such appropriation to have been included in the revised estimates tabled in the house for the fiscal year 1962-63, the amount was written off as a 1962-63 expenditure under authority of Atomic Energy Vote 16 in the Special Appropriation Act 1963 assented to July 22, 1963.

Paragraph 157 sets forth the situation surrounding the operations of Canadian Arsenals Limited for the year in question. I might just say here that its operations have been under close study by the Department of Defence Production and careful attention is being given to the problems they present.

Paragraph 158 sets forth the operations of the Canadian Broadcasting Corporation. In the last two paragraphs at the top of page 89 you will see reference to the estimated total cost of consolidation of the corporation's facilities in Montreal, Toronto and Ottawa, which at March 31, 1962 was estimated at \$81,087,000. In the next paragraph we draw attention to a recommendation we made to the board of directors as at March 31, 1960 that a useful purpose might be served by having the organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management organization and the results of the study are to be found in report 19, these lines was subsequently completed by the royal commission on government organization and the results of the study are to be found in report 19, volume 4 of the commission's reports.

Mr. HARKNESS: Mr. Chairman, I read the Glasco commission report on the C.B.C. I do not know how many other members of the committee have read it, but it contains some very, very serious criticisms of the organizational set-up and method of doing business of the C.B.C., which results in very large expenditures.

I would think that this committee, perhaps, particularly if there is no broadcasting committee this year, could very usefully have the C.B.C., or somebody from the corporation before the committee to explain to us what action they have taken to correct the faults which are disclosed in the Glasco commission report, and what expenditures as a result there is any chance of reducing.

I think this is particularly important because the grant being made, just for ordinary operating expenditures, is now around \$80 million a year, I think, is it not, Mr. Henderson?

Mr. HENDERSON: Yes.

Mr. HARKNESS: And there is, in addition to that, I have forgotten how many million dollars for capital expenditures.

It seems to me that this crown corporation, in addition to the Canadian National Railways, calls for more money on the part of the Canadian taxpayer than any other.

The CHAIRMAN: Yes, Mr. Harkness. I should say that the steering committee at one of our meetings did consider the question with regard to whether time would permit of closer and more detailed examination of several of the crown corporations. We did not consider which ones, but it has been several years now since this committee has had an opportunity, because of one thing and another, to examine in detail the financial operations of the crown corporations which are reported to us by Mr. Henderson.

I do not know whether at this time you feel like making a motion in this respect, or would you want it referred to the steering committee first?

Is there any further discussion on the statement made by Mr. Harkness?

Mr. HARKNESS: Well, if we are going to examine into any of these crown corporations, in view of the fact that there is more money required from the taxpayer for this corporation than for any other, and in view of the criticisms of the operation of the organization made by the Glassco commission report, I think it would be much more appropriate for us to deal with this corporation before any other, and therefore I would make a motion we go into the affairs of the organization.

The CHAIRMAN: May I have that in writing please, Mr. Harkness, so as to conform to our procedure? Is there a seconder?

Mr. HALES: I second the motion.

The CHAIRMAN: Mr. Harkness is suggesting that amongst the crown corporations we should definitely examine the financial operations and the statements of the Canadian Broadcasting Corporation, and Mr. Harkness is putting it in written form now.

Mr. TARDIF: Is the C.B.C. normally checked by the Auditor General?

Mr. HENDERSON: Yes, I am the auditor of the C.B.C.

Mr. McMILLAN: Can we refer back to some of these items of the Auditor General?

Mr. HENDERSON: Yes, indeed, sir. You will be covering the same parts when we are going through the 1963 report.

Mr. McMILLAN: I want to refer to item 141, for instance.

Mr. HENDERSON: The exchange fund. Well, as I mentioned, we are on the eve of having a very comprehensive statement tabled by the Minister of Finance, and you may find that that will answer a number of points, and I am hoping it will come before the committee and thus be placed on the record.

Mr. TARDIF: When you say on the eve, does that mean within the next couple of weeks?

Mr. HENDERSON: I think so, sir. And Mr. Bryce will appear to speak to

The CHAIRMAN: When we have completed the balance of these matters, or even at the time, any questions would be quite in order.

Mr. HENDERSON: Please stop me as I give you this run down.

Mr. McMILLAN: I will wait until the end on item 141.

The CHAIRMAN: This is the motion moved by Mr. Harkness, and seconded by Mr. Hales: "That the public accounts committee call officials of the C.B.C. before the committee in order to examine into the accounts of the corporation including the extent to which the recommendations of the Auditor General and the Glassco commission have been implemented."

Are you ready for the question?

Mr. HALES: I was wondering if that is broad enough? The way it is worded states just the recommendations of the Glassco commission.

The CHAIRMAN: And the Auditor General.

Mr. HALES: A full investigation.

Mr. HENDERSON: I think it is really to examine and inquire into the financial statements of the corporation, its accounts, including this other aspect, if you wish to attach it.

The CHAIRMAN: Does the committee give consent to including "to examine into the final statement of the C.B.C."?

Mr. HENDERSON: Into the accounts of the corporation.

The CHAIRMAN: Including the extent.

Mr. HENDERSON: Including the extent.

The CHAIRMAN: I will read the full motion as it is now amended: "That the public accounts committee call officials of the C.B.C. before the committee in order to examine into the accounts of the corporation including the extent to which the recommendations of the Auditor General and the Glassco commission have been implemented."

Mr. McMILLAN: That includes the accounts of the Auditor General as well, does it, up to 1963?

Mr. HENDERSON: It would include the ones before you, that is to March 31, 1962 and 1963. The corporation is required to table its annual accounts in the House of Commons annually, no later than the end of June is it not Mr. Stokes?

Mr. A. B. STOKES: (*Audit Director, Auditor General's Office*): Yes.

The CHAIRMAN: I would point out, of course, that we are bound by the terms of reference from the House of Commons, which includes statements for the fiscal years 1962 and 1963, and we would have to have additional terms of reference if we went beyond that period.

Are you ready for the question? All in favour? Against? One against.

Motion agreed to.

I declare the motion carried.

Might I point out in the case of some members who have come in since Mr. Henderson started, that he is at this time going rather rapidly through the final paragraphs of his 1962 report, but if at the conclusion of any particular paragraph or item any member of the committee feels he wants to bring up a point, or make a statement, it is perfectly in order to do so.

Mr. HENDERSON: The next paragraph, No. 159 deals with the Canadian Commercial Corporation. It is my understanding that the point made in the last paragraph relating to the annual loss of this Corporation may no longer be a problem because of changes now taking place whereby the functions of the Canadian Commercial Corporation are being transferred to the Department of Defence Production.

Paragraph 160 shows the crown's remaining equity in the Canadian National (West Indies) Steamships Limited which has since been reduced further. The corporation's activities are now confined to winding up its affairs. Paragraph 161 explains the operations of Canadian Overseas Telecommunication Corporation. Paragraph 162 sets out the situation respecting Canadian Patents and Development Limited.

Paragraph 163 deals with the Cornwall International Bridge Company Limited. This company ceased operations on July 2, 1962 when the Seaway International Bridge Corporation Limited took over the operation of the toll highway over the St. Lawrence river between Cornwall, Ont., and Roosevelttown, N.Y. The Cornwall International Bridge Company is therefore in the process of winding up its affairs.

Paragraph 164 sets out the details of operations of Crown Assets Disposal Corporation and paragraph 165 the details of Defence Construction (1951) Limited.

Mr. HARKNESS: Mr. Chairman, in connection with Crown Assets Disposal Corporation, you will remember Mr. Winch raised the matter of the disposal of a considerable number of items, which he brought to the attention of the committee, which seemed to have been sold at a very, very small sum, and at that time, as I recall it, there was some talk about having the officials of the Crown Assets Disposal Corporation appear before the committee.

Did the steering committee take any action on that, or what is the situation in that regard?

The CHAIRMAN: The way it stands now, Mr. Harkness, it was indicated by the committee at the time that officials of this Corporation, and also the Department of National Defence, should appear, but we should first have from the Auditor General a more detailed statement of what is involved.

Mr. Henderson's staff is now engaged in securing this information. We had a little problem which was, I think, worked out when Mr. Richard appeared before us, and I think unless there is something to the contrary Mr. Henderson is now engaged in securing this information.

When this is done, and the statement is drawn up, a time will then be fixed when the officials of the Department of National Defence and Mr. Richard's Corporation will appear here, and this matter will be gone into.

Mr. HARKNESS: That is looked after, and no further motion is required?

Mr. HENDERSON: That is correct, Mr. Chairman.

Paragraph 166 refers to Eldorado Aviation Limited and paragraph 167 to the parent company, Eldorado Mining and Refining Limited.

Paragraph 168 deals with Export Credits Insurance Corporation. In our 1961 report we had pointed out how, as a result of our audit, we had found the case of an agent who had collected money and failed to turn it over to the Corporation. As indicated here, the exporter refunded the amount involved, \$70,000, to the Corporation in March 1962.

Paragraph 169 sets out the operations of the Farm Credit Corporation. During this 1961-62 year there had been increased activity in its operations which as noted on page 103, resulted in an increase of \$684,000 in its expenses, arising largely from the increase in its staff from 183 at March 31, 1960, to 308 at March 31, 1961, and to 388 at March 31, 1962.

Paragraph 170 deals with the National Battlefields Commission.

Mr. HALES: Before you leave farm credit, I wonder if the Auditor General has any observations to make regarding the increase in the loss position of the farm credit over the year 1961-1962. The loss is almost four times what it was before.

Mr. HENDERSON: Well, that is largely accounted for by the very figure that I just gave, Mr. Hales. The expense went up by \$684,000, as you will note from the comparative tabulation given on page 103, and that arose from the substantial increase in staff because of the greater activity by the corporation in the lending field.

That is what accounted for that increase.

Mr. HALES: The money's being loaned at a lower rate then. They are not having enough income to take care of their expenses.

Mr. HENDERSON: Well, that has most certainly been a contributing factor, and I have pointed that out in my statutory report in the accounts each year, but at the same time the overhead has gone up, because they have been given larger sums of money to lend and they had to engage more staff to do it. There has been considerable expansion in this Corporation, as you know from the discussion in the house.

Does that answer your question?

Mr. HALES: Yes. It is not a very healthy position that they are in. I presume the corporation are doing all they can to cut their expenses, however.

Mr. HARKNESS: Well, essentially the situation is, is it not Mr. Henderson, that the rate of interest charged on these loans is not sufficient to cover the cost of getting the money to begin with, what has to be paid for the money, plus the cost of administration?

Mr. HENDERSON: That is quite right, sir. Perhaps Mr. Long would like to add something on this.

Mr. HARKNESS: In other words, this is a subsidized loan.

Mr. HENDERSON: You might describe it as such.

Mr. FANE: One and a half per cent, that is all.

Mr. G. R. LONG (*Acting Assistant Auditor General*): As Mr. Harkness mentions, it is the statutory rate of 5 per cent, which they have been limited to, and they have been paying more than 5 per cent to the federal government for the moneys which they loan.

I believe there is presently a bill before the house on this matter. I am not just sure whether it has been passed or not, but there is to be, I believe, an increase in the rate on the increased amount which they may loan to individual farmers.

This, of course, will not take care of the situation up to the former loaning limit.

Mr. FORBES: Since this is a 30 year loan it is generally regarded that interest rates vary in Canada over a period of 30 years. You can anticipate that there will be periods that this will be above 5 per cent, and periods that it will be below 5 per cent, but I think it will average out to 5 per cent.

I think if you review the history of interest rates in Canada, you will find this substantially correct.

Mr. SOUTHAM: With regard to the interest rate that the government has to pay on the average, what would you expect it to be, roughly? I am interested in this because there has been a quite lengthy debate in the house, and as Mr. Forbes says, it was pretty well discussed on the long term loan that is being advanced to farmers, and the figure of 4 per cent was mentioned as an average of what the cost of the money would be to the government.

So, even though we are dealing with only one corporation here, but looking at the overall picture, the government in the long run would not lose if this figure of 4 per cent was correct.

Mr. HENDERSON: I think it is impossible to speculate into the future of what the out-turn of a thing of this kind might be. The problem we had before us here was that the corporation was being charged a higher rate of interest than it was permitted to charge to its customers, so it is forced into a loss position.

If you were doing this in business, presumably the rate that you would pay to get the money would be the rate that you would pass on to the customers, at least, plus sufficient to cover the overhead of administering it, thus working in the direction of a break even point, but they cannot do that here because they are limited by the rate of interest that they can charge the farmer, as Mr. Long has explained. I think it remains at 5 per cent for the first amount of money, and

then can take an increase over and above that. But this is not going to be sufficient to bring it out to a break-even point.

Mr. SOUTHAM: Well, my question was not looking into the future, but over the past number of years, what has been the average cost of money to the government?

Mr. HENDERSON: I would not like to give an answer right off, without checking.

Mr. SOUTHAM: The reason I ask you is that the figure 4 per cent was given several times during this debate, and I was quite interested in it, because I was representing a farm area, and the fact that our farmers get a benefit from this Farm Credit Corporation to a large extent, knowing the feeling of farmers, they themselves do not want to be getting charity. Going back to the old phrase, they want parity, not charity. But the figure of 4 per cent came out, that this was the average cost over the past years to the government, and, in effect, if they were now being charged 5 per cent, in the long term they believe that they would break even on it.

I just wondered if this was substantially true.

Mr. HENDERSON: I would wish to check the history of interest costs to the government before saying whether I thought 4 per cent was a fair basis or not.

The general proposition, as I see it, is if you are going to be lending money to people, you should charge what that money costs you, plus a margin to cover costs. Otherwise you are subsidizing it.

Mr. SOUTHAM: Here we have a crown corporation working within the government itself, and the government itself can borrow this money, and then turn around and loan it. I was wondering whether this 4 per cent figure was substantially true or not.

The CHAIRMAN: Could that be available by the time we come to study the Farm Credit Corporation in your 1963 report?

Mr. HENDERSON: I will certainly look up the *Hansard* reports. I think I recall that particular discussion you mentioned. We can then see to what extent it might be possible to support the statement with the facts, without going to an undue amount of work, and thus put me in a position to be a little more helpful.

Mr. WAHN: Do the figures since 1929 represent that the total cost of the money to the government must be something less than 5 per cent, because, in fact, the corporation, or the board, rather, has been able to establish a reserve without earnings, which at March 31, 1960, amounted to something like \$3,749,000. This, presumably, represented accumulated earnings from past years, would it not Mr. Henderson?

Mr. LONG: Mr. Wahn, the reserve that is there at present was accumulated under the old Canadian farm loan board.

Mr. WAHN: That was a predecessor of it.

Mr. LONG: The predecessor. I am not familiar with legislation under which it operated, but I rather think this 5 per cent limit came in under the Farm Credit Act.

Mr. WAHN: Is it your information that they charged more than 5 per cent under the predecessor organization?

Mr. SOUTHAM: No, they did not.

Mr. WAHN: So the cost must be less than 5 per cent, even taking in the administration costs, because the previous paragraph of the report states why.

Mr. LONG: I think I am right in stating that since the Farm Credit Corporation came into existence they have continually reduced this reserve.

The act requires them to set aside profits, to take care of possible losses, and they are not making any progress in that direction.

Mr. WAHN: The present corporation was established under the Farm Credit Act, since 1959, and since 1959 the effective interest rate has been much higher than it was prior to 1959.

If the object of the government in setting up this type of corporation is to level out the interest cost to farmers over, say, an extended period, which might very well be the case, because after all farm investments are for an extended period of time, then the fact that there was a formal change from old Canadian farm loan board to the Farm Credit Corporation, I do not think should really make much difference, unless there was some fundamental change in the interest rate charged as between the two periods.

But surely one purpose of this might be to level out interest rates to the farming community over, say, a 20 year period. So before you could make any recommendations as to whether this corporation is operating in an unbusiness-like way, I think you would have to look back over the entire period, and not just look back to 1959, because from 1959 on, as you know, the interest rates have been unusually high in relation to what they were back in 1946, for example.

Mr. HENDERSON: I think that is the point Mr. Southam had in mind when he referred to the history of the 4 per cent rate that was brought up in the debate. You would have to go back many years on that.

Mr. McMILLAN: What was the prevailing rate of interest that the government was paying in 1959, because that would indicate whether it was to be a subsidized corporation, or a self-sustaining one.

Maybe in 1959 you could have loaned money at 5 per cent and then operated certainly not at a loss at any rate.

Mr. HARKNESS: I was going to try and answer that for you. You will perhaps remember that I was the person who put this legislation through, and I think there are several factors in connection with this.

First of all, the operations of the Farm Credit Corporation have been very much more extensive than those of the old farm loan board, and this necessitated, as Mr. Henderson has said, a considerable increase in staff.

One of the policies on the basis of which the corporation was put into effect was to provide a supervised service with the particular object in view of enabling young farmers to become established in the farming business. This was on the basis of the fact that the average age of farmers had got to be fairly high, and it was extremely difficult for young men to get into farming, and in order to make possible transfer of land from old farmers to younger men, and to maintain, in other words, a farming population of a reasonable age, it was considered good policy, and the government adopted that idea of increased loans and a supervisory staff to give advice to young men getting started in the farming business, and to direct their activities into those branches of agriculture, in particular, in which there was the best possibility of profit for them and the greatest advantage to the general economy of the country.

This, of course, it was realized would all cost money. On the basis of what interest rates had been, as Mr. Southam said, over the period of the previous 30 or 40 years, it was hoped at least that the rate of 5 per cent over the long term would be sufficient to pay the extra costs involved, but if they were not sufficient, then the government at that time was prepared to subsidize these operations to whatever extent was necessary, in order to get a better balanced agriculture.

Mr. McMILLAN: Well, that answers my question, I think, not specifically but in general terms.

Mr. FANE: Mr. Chairman, I just wanted to say, for the benefit of Mr. Wahn who asked a question about the interest on the Canadian farm loan board loans. That was 5 per cent. It did not go up, or it did not go down, when Mr. Harkness brought in his Farm Credit Corporation.

I can say that first hand, because on a farm that I purchased not so long ago, 1948, I think the interest at that time was 5 per cent. The loan that I had myself some time in the thirties was also 5 per cent. So it did not change, and I believe that is the reason why the interest on the Farm Credit Corporation loans was set at 5 per cent, after much difficulty and argument.

Mr. FRANCIS: Mr. Chairman, on this subject, I cannot help but feel that what is more important is the projected future arrangements, rather than past experience, which is coloured by the long depression of the thirties. I cannot help but feel that the interest rates which are applied under the National Housing Act might be more appropriate as a general policy for various types of government and government guaranteed loans, and I personally think that there should not be any great disparity between C.M.H.C. loans and farm credit loans.

I think roughly the same rate of interest should apply.

The CHAIRMAN: Thank you Mr. Francis. We will be dealing with this again, of course, when we come to 1963.

Can we pass on to the next paragraph?

Mr. HENDERSON: Paragraph 170 deals with the National Battlefields Commission. The comment made at the top of page 105 regarding the snow removal tax was resolved by reason of decisions unfavourable to the City in similar cases in the Exchequer Court of Canada and the court of appeal of Quebec which resulted in the withdrawal of the action in September, 1962, with each party paying its own costs.

Paragraph 171 deals with the operations of the National Capital Commission which we will be discussing also under another heading in the 1963 report and to which the deputy minister of finance will probably be addressing himself when he appears before the committee.

Paragraph 172 shows the position of the national harbours board. Here there will be noted, beginning on page 109, three cases of non-productive expenditures set out as requested by the committee. Together the payments involved \$328,000 for which little or no value was received. Loans and advances to the national harbours board continued to increase and at March 31, 1962, together with interest in arrears, amounted to \$355,723,000. I pointed out in 1961 and again in this report that there appears little prospect of the board being in a position to meet principal and interest obligations of this magnitude on the basis of the present level of its operations, and accordingly suggested that consideration should be given to reconstituting its financial structure on a more realistic basis.

Paragraph 173 sets forth the picture on the Northern Canada Power Commission. In 1961 I had pointed out that greater efforts should be made by the commission's management to keeping a recording of its transactions on a more current basis, and record here that some improvement was found in this direction and that management is continuing its efforts along these lines.

Paragraph 174 has to do with the Northern Ontario Pipe Line Crown Corporation. Members may recall that on May 29, 1963, Trans-Canada Pipe Lines Limited exercised its option to purchase the northern Ontario section. Northern Ontario Pipe Line Crown Corporation has since discharged its liability for the amount due to the government of Canada for outstanding loans and interest accrued thereon.

Paragraph 175 deals with Northern Transportation Company Limited which is a wholly owned subsidiary of Eldorado Mining and Refining Limited.

Paragraph 176 refers to Park Steamship Company Limited which has ceased operations.

Paragraph 177 covers the operations of Polymer Corporation Limited and subsidiary company in the year ended December 31, 1962. Members of the committee will recall that officials of this company appeared before the public accounts committee in 1961 when its accounts were examined in detail.

Paragraph 178 sets out the situation with respect to the St. Lawrence Seaway Authority at March 31, 1962.

Paragraph 179 opens our comments with respect to the extensive trading or servicing activities operated by a number of departments. Paragraph 180 sets out how financial statements showing the operating results from such activities could be prepared and included in the public accounts. This is a matter we discussed at the opening of these meetings when considering my follow-up report and, as stated at that time, this is a situation which will have my continuing attention. I am grateful for the interest shown by the committee in trying to reach this objective.

Paragraph 181 summarizes the trading losses and stabilization and deficiency payments comprising the net operating loss arising from the agricultural commodities stabilization activities. Paragraph 182 shows a comparative summary of the results of operations of the Board of Grain Commissioners for Canada and refers to this committee's recommendation in 1961 that steps be taken to bring revenues and expenditures into balance. As I advised in my comment on this item in our follow-up report, announcement was made last April that steps will be taken to achieve this objective by increasing the fees beginning August 1, 1965.

Paragraph 183 shows the situation with respect to the operation of the Canadian government elevators, all of which have remained in a profit position excepting Lethbridge where for the seventeenth consecutive year the direct costs of operation have exceeded revenue.

Paragraph 184 gives the picture regarding the national film board. On page 124 it is explained that because the statement of income and expense did not include charges for the value of accommodation, contributions to the public service superannuation account and accounting and other services provided by government departments to the extent of approximately \$1,027,000 for the year, the net expense shown is under-stated to that extent. I am glad to advise the committee that the management of the national film board has since remedied this situation by proposing to include these costs in its statement of income and expense.

Paragraph 185 shows the excess of expenditure over revenue in connection with the activities of the post office, although as indicated in the bottom paragraph on page 124, no account had been taken of services rendered by other departments which would have amounted to a net increase in expenditure of \$25,485,000 based on estimates for the fiscal year 1962-63.

Paragraph 186 deals with public printing and stationery activities and show how, in addition to the expenditures recorded through the advance account which totalled \$19,607,000, the department had other expenditures totalling nearly \$4 million.

Paragraph 187 records the result of operations of the Royal Canadian Mounted Police and paragraph 188 deals with the airport operations of the Department of Transport.

In paragraph 189 I refer to the public accounts committee's statement in its fifth report 1961 that the committee felt it would be desirable, in the interest

of providing members with a clear understanding of the true financial results of departmental trading or servicing activities like these, were over-all financial statements included in the public accounts without undue cost or staff increases. In my opinion, the importance of this recommendation is again borne out by the situation I have outlined with respect to these activities, and I was particularly pleased to have last December the committee's endorsement that our efforts towards this objective should be continued.

In paragraph 190 I set out the nature of certain special audits and examinations made by the Audit Office. I began with paragraph 191 having to do with the army benevolent fund and followed with paragraph 192 dealing with the Canada Council—an agency which will be the subject of special attention during consideration of my 1963 Report because of its direct reference to the Committee. Paragraph 193 shows the operations of the Custodian of Enemy Property while paragraph 194 shows the position of the Exchange Fund Account, already referred to—

Mr. McMILLAN: In connection with the exchange fund account, I understand somebody from the Department of Finance is going to be here, but does that mean, when you talk about a deficiency, does that mean a loss in the account?

Mr. LONG: The amount shown here as a deficiency, Dr. McMillan, is an accumulation since the Currency, Mint and Exchange Fund Act was first passed quite some years ago. In that time there have been several occasions when the exchange was fixed. There have been some years when the exchange was at a free level, and at the end of any particular year when you value your holdings in terms of the value of the United States dollar, there is an accumulation which, depending upon the value of the United States dollar at that time, might be quite high, and it has been quite high. It was quite high when we first started mentioning this.

Now, the current situation is that the United States dollar has been increased in value. The Canadian dollar has been lowered in value, and this deficit is wiped out as long as the present value of the United States dollar remains. Should it change even a slight amount, this difference would disappear, and really, to answer your question, I think there have been losses, not in the transactions, but in the handling of the exchange rate, as has been necessary over the years.

Mr. McMILLAN: Well, I understood the Auditor General to say that that amount would be \$33 million, but at four it would be \$154 million.

When you use the word deficiency, what do you mean? Deficiency from what?

Mr. HENDERSON: If you will look at the tabulation Mr. Long referred to on page 133, you will see the position of the fund. The balance at December 31, and we are taking here December 31, 1961, compared with the previous year. You will see that it is \$2,162 million. Then it shows what the balance is represented by. It was Canadian dollars, which are small, United States dollars and securities, and gold.

Now, those currencies, particularly the United States dollars and securities, and gold, require to be valued to see to what extent they equal the balance of the fund on the books, and as you will see here, at December 31, 1961, they were short by \$45,858,000. On May 2, 1962, when the Canadian dollar was revalued in terms of United States currency, you can appreciate that that deficit came to be largely eliminated.

These are the factors and considerations to which the Minister of Finance is addressing himself, as I understand it and which he is making the subject of his memorandum that is going to be tabled. It is a most interesting problem, and well worthy of consideration by the committee.

Mr. McMILLAN: The reason I asked this is that I seem to recall that in several years there was a surplus in that fund.

Mr. HENDERSON: Yes, one would have existed, would it not Mr. Long, in the record?

Mr. LONG: There has not been an over-all surplus for quite some time. Individual years might have had a surplus, yes.

Mr. HENDERSON: With figures of this magnitude it does not take much of a difference to swing the pendulum.

The CHAIRMAN: Would the committee agree that when Mr. Bryce makes available his memorandum, in order that the committee could have this very important information before them before Mr. Bryce comes in here, would the committee authorize me, when it comes to hand, to make a distribution to all members of the committee so that they have an opportunity to study it before Mr. Bryce gets here?

Mr. HENDERSON: Paragraph 195 deals with the operations of the National Gallery of Canada and paragraph 196 with those of the National Productivity Council.

Paragraph 197 indicates the extent of our work carried out on public printing and stationery stores and paragraph 198—

Mr. HALES: On paragraph 197, your department, I know, assists in an annual physical stocktaking of the department. How often was that done? Once a year, or twice?

Mr. HENDERSON: It is done annually, I believe. Mr. Smith, could you speak to that point?

Mr. D. A. SMITH (*Audit Director, Auditor General's Office*): This is done not only at the Ottawa headquarters of the department, but also at field offices throughout Canada.

Mr. HALES: And a member of your department works alongside them?

Mr. SMITH: Yes. Headquarters personnel, plus personnel from our regional offices at various centres across Canada.

Mr. HALES: Thank you.

Mr. HENDERSON: Paragraph 198 covers the Queen Elizabeth II Canadian fund to aid in research on the diseases of children. Paragraph 199 refers to our annual inspection of the Royal Canadian Mint stocks.

Paragraph 200 shows the position of the Unemployment Insurance Fund at March 31, 1962, a subject you will want to examine in more detail when we reach the comparable paragraph in our 1963 Report. It may be of interest to note here the information contained in the last three paragraphs of this comment on page 139 showing how the marketable securities were exchanged for the special issue of Government of Canada non-negotiable bonds, to which I referred earlier (paragraph 148).

Paragraph 201 shows the results of operations for the year of the Yukon Territorial Government. In this connection, the Yukon Act does not provide for the preparation of annual financial statements for the Territory or for their certification by the Auditor General as the statutory auditor. As a consequence I recommended to the Minister of Northern Affairs and National Resources that steps be taken to incorporate these provisions in the Act. At the same time I advised him that pending such an amendment to the legislation, I would, of course, continue to furnish appropriate audit certificates covering the annual financial statements prepared by the Territory for publication in its Public Accounts. Although no statutory action has yet been brought forward, I am advised by the Department that it proposes in due course to recommend legislation along the lines I suggested.

These comments, Mr. Chairman, which I am afraid I have, perhaps, given too rapidly, do bring us to the conclusion of the 1962 report, and may have perhaps served the purpose of familiarizing you with some of the situations you are going to find updated in the 1963 report, which would be the next document to bring forward.

The CHAIRMAN: Thank you, Mr. Henderson. I am sure the committee has appreciated your diligence, and that of your officials.

I think, as a matter of fact, this is the first time in three years if I am correct, that we have been able to take the time in between elections, and other problems, to complete a yearly study of your report, and I think it is excellent that we have had your assistance in doing so.

Now, as Mr. Henderson said, we have hurried through this last part, but, as you realize, within the not too distant future we will be dealing with these matters brought up to date, and, secondly, while we are open for any questions if any member of the committee is interested, it will be discussed at a later date.

May I say one more thing, that it is hoped that the steering committee will meet some time next week, so that we may possibly be able to bring in an interim report covering the matters which we have discussed so far, and not find ourselves at some time later next fall having to rifle through transcripts of evidence, and discussing matters dealing with the problems which were before us many months previously.

I hope that the steering committee might consider this, might be able to bring up to date and include in a report to the house the pertinent matters in those things which the committee may feel themselves should be included in an interim report.

Mr. McMILLAN: I just want to ask a general question. I was struck by the lack of recovery of the government from investments and advances to different corporations. Take the national harbour board. I think he said \$300 million, and the deficiency in the exchange account of \$154 million. In those two accounts alone there is over half a billion dollars. That really did not show our true balance at the end of the year. Is that right?

Mr. HENDERSON: Well, it distorts the figures, it makes them less meaningful. There exists a host of reasons behind each and the decision to leave them undisturbed at the present time, all of which, in fairness, must be examined before you can reach any individual or general decisions.

In the case of the national harbours board I felt that you would probably agree that it should serve a very useful purpose to take a hard look at that establishment, because it presents the Board with an enormous problem, not even being able to meet the interest, let alone capital repayment. Moreover in the operations of an organization it must surely dull the initiative of the people. They feel they are fighting a hopeless case when saddled with this sort of overhead.

Mr. McMILLAN: Should not a certain amount of that be written off as current account every year?

Mr. HENDERSON: Yes, there is a case for this, but you have to tackle these things, Dr. McMillan, at the beginning, by first of all examining all the facts in the closest detail before moving on it.

Mr. WAHN: When does the Auditor General's report normally come out? In other words, when will the report for the fiscal year ended March 31, 1964, be published?

Mr. HENDERSON: I complete it by the close of the calendar year, that is December 31, and normally it is placed before parliament in January, or February, as soon as it reconvenes after the recess.

That is in accordance with the provisions of the Financial Administration Act.

The CHAIRMAN: Are there any further questions?

Mr. HARKNESS: Mr. Chairman, before we adjourn, what are we going to deal with at the next meeting, on Tuesday?

The CHAIRMAN: The Auditor General's report for the year ending March 31, 1963. That is where we will be beginning on Tuesday next.

Mr. HENDERSON: Mr. Long has just drawn my attention to an important point.

Mr. LONG: Dr. McMillan, you mentioned the exchange fund account and its deficit. I just wanted to make sure that you are aware that all earnings on the investments in United States securities are turned over to the Department of Finance, so that the deficit appearing in the account does not take into consideration earnings on investments of the account.

Mr. McMILLAN: It does not appear to offset any of it.

Mr. LONG: Well, if all the interest, earnings on investment, were left, the deficit would be much less, but they are taken off, and you will notice on page 14 of our 1962 Report that they amounted to over \$32 million in 1962.

The CHAIRMAN: The meeting is adjourned until next Tuesday, at 9.30 a.m.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

Public Accounts, Volumes I, II and III (1963)
Report of the Auditor General to the House of Commons—1963

TUESDAY, JUNE 23, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,
Beaulé,
Berger,
Cameron (*High Park*),
Cameron (*Nanaimo-Cowichan-The Islands*),
Cardiff,
Chaplin,
Côté (*Chicoutimi*),
Crouse,
Drouin,
Dubé,
Fane,
Forbes,
Francis,
Frenette,

Gendron,
Grafftey,
Gray,
Hales,
Harkness,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
McNulty,
Muir (*Lisgar*),
*Nowlan,
O'Keefe,
Pigeon,
Pilon,
Regan,

Richard,
Ricard,
Rinfret,
Rochon,
Rock,
Rondeau,
Ryan,
Scott,
Smith,
Southam,
Stefanson,
Tucker,
Valade,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

*Replaced Mr. Skoreyko on June 19.

ORDER OF REFERENCE

HOUSE OF COMMONS,
FRIDAY, June 19, 1964.

Ordered,—That the name of Mr. Nowlan be substituted for that of Mr. Skoreyko on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, June 23, 1964
(9)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Fane, Forbes, Frenette, Harkness, McMillan, Nowlan, O'Keefe, Regan, Rinfret, Stefanson, Tardif, Tucker, Winch (14).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Douglas, Stokes, Smith, Millar, Chapman, Crowley and Laroche of the Auditor General's office.

The Chairman welcomed Hon. George Nowlan as a new member of the Committee.

Mr. Baldwin referred to discussions with Mr. Alphonse Ouimet, President of the C.B.C. and Dr. G. F. Davidson, Secretary of the Treasury Board relating to their attendance before the Committee. The Chairman also announced that the Steering Committee would meet this afternoon to consider a schedule of witnesses.

The Committee commenced its consideration of the Auditor General's Report for the year ended March 31, 1963.

Mr. Henderson reviewed paragraphs 1 to 40 inclusive and was questioned thereon, assisted by his officials.

On paragraph 7, *Scope of the Audit*, Mr. Henderson reviewed his staff and recruitment outlook, and was questioned thereon. The Committee agreed that the Chairman write the officials of the Institute of Chartered Accountants in Quebec thanking them for officially recognizing the office of the Auditor General in the Province of Quebec for the training of students-in-accounts.

The questioning of Mr. Henderson still continuing, at 10.55 a.m., the Committee adjourned until 9.30 a.m. on Thursday, June 25, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 23, 1964

The CHAIRMAN: Gentlemen, I see a quorum. You will come to order. I am glad to welcome one or two new members. I am glad to see the Hon. Mr. Nowlan present. We welcome his experience not only as a member of the committee but from other places as well, and I am sure he will be very helpful to us in our examinations.

The other day we said that we would start the examination of the Auditor General's report for 1963. Pursuant to the instructions of the committee contained in the motion moved and passed at the last meeting with regard to the request that the C.B.C. officials appear before this committee in connection with their financial statement and other aspects which are concerned with the work of this committee, I telephoned to Mr. Ouimet, and I think we will be able to arrange for their appearance some time around the first week of July.

I had hoped to be in contact with him this morning again so that we might be able to fix a firm date, but he was not available then. I think however that I shall be able to get in touch with him later on. We hope to have a steering committee meeting this afternoon at four o'clock and to be able to report at our next meeting, at which time we hope to be able to give you some idea as to the other witnesses, and the deputy ministers generally, and the dates of their appearance.

On June 30, Dr. G. F. Davidson, secretary of the treasury board, will be present. I was in touch with him. There are a number of matters in which he is interested and about which he will have comments to make. The committee may wish to question him on both the 1962 as well as the 1963 report. Perhaps at that time, if it meets with your approval, when we send out notices, Mr. Slack would indicate the paragraphs in the 1962 and 1963 reports about which Mr. Henderson will be making comments so that you will know about it before you come here. You will have some indication of what subject matters will be discussed. But this is a firm date, June 30, when Dr. Davidson will be here. There are a number of matters about which we will send you information.

Now, Mr. Henderson, let us start with the 1963 Auditor General's report to the House of Commons. I think you all have copies of the report. If not, they are available.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Well, Mr. Chairman, beginning with my 1963 report, of which everybody has a copy, for the past several years we have been inserting a table of contents, as you may have noted, in this report which I make to the House of Commons, which we find, and I hope you will find, to be of some assistance in locating individual items.

The CHAIRMAN: We commence with paragraphs 2, 3 and 4:

2. In accordance with the requirement of section 70 of the act, a Report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1963. Subsection (1) of the section reads:

The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,

- (b) any public money was not duly accounted for and paid into the consolidated revenue fund,
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by parliament,
- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of any money, and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

3. The statement of expenditure and revenue for the fiscal year ended March 31, 1963 and the statement of assets and liabilities as at that date, prepared by the Department of Finance for inclusion in the public accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this report. Copies of these financial statements are attached hereto as Exhibits 1 and 2. The "summary of appropriations, expenditures and unexpended balances, by departments" and the "summary of revenue, by main classifications and departments", both as included in the 1963 public accounts, have also been examined and certified and copies are attached as Exhibits 3 and 4.

4. This report includes explanatory notes, in paragraphs 17 to 33, regarding the major variations between the 1962-63 and 1961-62 expenditures. There is also submitted, as Appendix 2, a "summary of expenditure by standard objects" for the year ended March 31, 1963, with comparable figures for the preceding fiscal year.

Mr. HENDERSON: These are standard introductory paragraphs quoting as they do, under paragraph 2, that part of section 70 of the Financial Administration Act, pursuant to which I make my report to the house, on the results of my examination each year.

Paragraphs 3 and 4 refer to exhibits and appendices to the report.

The CHAIRMAN: Next is paragraph 5:

5. It will be noted from the summary of expenditure by standard objects (Appendix 2) that the two largest items of expenditure continue to be interest on the public debt and civil salaries and wages. Together they totalled \$1,782 million and represented one-quarter of the total expenditure for the year. The first of these items, namely interest on the public debt, is the subject of a detailed appendix in the public accounts. With respect to civil salaries and wages and following the practice of the past several years, Appendix 3 to this report gives a summarized listing showing the numbers of employees authorized for the public service by departments, crown corporations and other public instrumentalities at the close of the fiscal year under review in comparison with the numbers at the close of the preceding year, prepared on the basis explained in the footnotes to the appendix.

Regarding paragraph 5 you may remember that at its meetings last December the committee expressed interest in the summarized listing referred to here as appendix 3, which shows the number of employees authorized for the public service by departments, crown corporations and other public instrumentalities at the close of the fiscal year, in comparison with the numbers at the close of the preceding year. This was in reference to a similar appendix appearing in the 1962 report, and in its fourth report 1963, presented to the House or

December 19, 1963, the committee asked me to continue preparing this comparative listing annually and, effective with my report for the fiscal year 1963-1964, to include therein a more detailed breakdown of establishments by divisions and subdivisions together with the number of employees actually on strength at the end of each fiscal year for the purpose of showing the size of each establishment's organization on a still more informative comparative basis.

As the members will recall from their discussion of my follow-up report a month ago, I advised that a comparative listing prepared along the lines directed by the committee would be included as an appendix in my next report to the House of Commons.

The CHAIRMAN: Paragraph 6 follows:

Standing Committee on Public Accounts

6. This standing committee of the House of Commons last examined my whole report in 1961 when it held 22 meetings between February 22 and June 30, 1961. At these meetings the committee examined my report to the house for the fiscal year ended March 31, 1960 which had been tabled on January 16, 1961. The final report of the committee was submitted to the house on July 1, 1961 and contained 35 recommendations for improvements in various areas of government operation.

My report for the fiscal year ended March 31, 1961 was tabled on January 31, 1962. The public accounts committee, however, was not convened during the then session of parliament.

At the following session the committee was convened and my 1961 report referred to it by the house. The committee held its first meeting on December 13, 1962. In accordance with past practice, I was asked to submit a follow-up report on action taken on the 35 recommendations contained in its report to the house on July 1, 1961. In submitting this to the members of the committee, I was able to report that in 24 of the committee's 35 recommendations, action had been taken by the departments and agencies concerned which I felt the committee might consider appropriate in the circumstances.

My report for the fiscal year ended March 31, 1962 was tabled on January 21, 1963 and referred to the committee on January 23rd. At the request of the house, the committee met on January 29th to consider two of the matters dealt with in that report, namely the refusal of access to certain income tax files and my difficulties in recruiting audit office staff under existing governmental recruitment procedures. These matters were considered by the committee further on February 1 and February 5, 1963, following which the committee submitted its report thereon. This ended the committee's work as parliament was dissolved on February 6, 1963.

Consequently, neither my 1961 nor 1962 report (except for the two matters referred to above) has yet been examined by the public accounts committee. However, on October 29, 1963 my 1962 report was referred by the house to the reconstituted committee, which resumed sittings on November 8, 1963 and is currently in session.

Mr. HENDERSON: Paragraph 6 refers to your committee. The four paragraphs under this heading were inserted for the purpose of familiarizing members with the extent to which reports had been examined or were under examination by the committee and therefore the paragraphs are purely informative.

You will note that no committee was in fact ever convened to examine my 1961 report. However, the prompt action of the present committee in completing its examination of my 1962 report last Thursday so that it can now turn to my 1963 report today is particularly encouraging to my officers and to me.

The CHAIRMAN: Now, paragraph 7:

Scope of the Audit

7. Examinations of the departmental accounts for the year ended March 31, 1963 were made in conformity with section 67 of the Financial Administration Act which reads:

The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the consolidated revenue fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

In my report to the House of Commons for the fiscal year ended March 31, 1962 I stated that it had not been possible to carry forward the comprehensive audit approach to the extent outlined to the house in my 1960 report and to the public accounts committee both in 1960 and 1961, for the reason that I continued to be unable, under existing governmental recruitment procedures, to obtain the full staff approved for my office by the treasury board.

The same unsatisfactory situation continued throughout the fiscal year under review. Our examinations are conducted on a test basis, the extent of the tests varying according to the nature of the transactions and the effectiveness of internal controls. The extent to which these test examinations had to be limited by recruitment difficulties continued to be a matter of serious concern. As I stated in my report last year, there are altogether too many instances where staff shortages result in the audit office being unable to carry out its test examinations with sufficient frequency or in sufficient depth to achieve even the minimum standard required by modern accepted auditing practice.

The public accounts committee has had this problem under examination since 1960 and has recommended that appropriate steps be taken to authorize the Auditor General to recruit and manage his own staff. In its second report 1963 tabled in the House of Commons on February 5, 1963 the committee rendered the following opinion:

The committee on two previous occasions has recommended that immediate attention be given to the problem of recruitment of staff by the Auditor General and sees no reason at the present time to alter its recommendations made in two previous years.

The committee gave consideration to section 65 of the Financial Administration Act and to section 74 of the Civil Service Act.

The committee is of the opinion that consideration be given to amending section 65 of the Financial Administration Act so as to authorize that the Auditor General recruit and manage his own staff with the approval of the treasury board and that in the meantime the Civil Service Commission should immediately reconsider its position with respect to section 74 of the Civil Service Act, since the Committee is convinced that the special character of the Auditor General's work requires that this be done.

As no action had been taken by the executive to implement the recommendation in whole or in part by the time the reconstituted committee opened its 1963 meetings on November 8th, the committee asked the Auditor General and the chairman of the Civil Service Commission to explore the problem further and report back to the committee on November 22, 1963. On that date they jointly advised the committee as follows:

1. The Auditor General and the Civil Service Commission have reached agreement on the steps to be taken to achieve the objectives of the Auditor General in the area of recruitment, selection and negotiation with candidates for positions in his office. While giving the Auditor General freedom to recruit staff, these steps contemplate adherence to the basic personnel policies and standards sought for the Canadian public service by the Civil Service Commission, and the Auditor General has accepted the responsibility to see that this is maintained through the medium of effective liaison.
2. In order to facilitate the achievement of these objectives, the Civil Service Commission is seconding a senior employee from its staff to the staff of the Auditor General to handle his staff and administrative matters.

I believe that, following implementation of this arrangement, the audit office will be in a position to improve the scope of its work in a satisfactory manner. The staff shortage which has existed has, of course, continued to limit the scope of work during the now current 1963-64 fiscal year. However, I look forward to being able to report progress in this regard with respect to the fiscal year 1964-65.

Subject to the limitations in the scope of our work, referred to above, our examinations were made in accordance with generally accepted auditing standards and continued to include a general review of the accounting procedures and systems of internal control together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the audit office view, were not in the harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with executive orders or regulations.

Our examinations extended to all departments, crown corporations and other agencies of the government of Canada, excepting those listed in paragraph 133 whose accounts were subject to examination by other auditors.

The accounts relating to the receipts and disbursements of the audit office were examined by an officer of the public service nominated for the purpose by the treasury board, as required by section 75 of the Financial Administration Act.

During the course of their work, members of the staff of the audit office were given full access to all vouchers, records and files of the various departments, crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I take pleasure in expressing my appreciation for the co-operation thus extended by departmental and treasury officers and by the administrative and accounting officers of crown corporations and other agencies.

The audit office has addressed detailed reports to the executive boards of crown corporations and other agencies covering the results of its examinations during the past year. These reports give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course of the audit. Where matters dealt with in these reports were considered to be of interest to the House of Commons, references are made in the relevant sections of this report.

Mr. HENDERSON: In paragraph 7 I refer to the scope of my audit. The situation outlined here follows a similar comment I made in my 1962 report which members will recall I updated in my follow up report and which we discussed at some length on May 26 last.

The statements I have made under this heading on pages 3 and 4 are of vital importance to the audit office and its work. As the discussion which took place in committee on May 26th last contemplated that we would be discussing this matter further, I believe that it will be useful, Mr. Chairman, if I could refer to the staff outlook facing the audit office today.

The CHAIRMAN: I wish you would, Mr. Henderson.

Mr. HENDERSON: When we discussed my follow up report on May 26, you will recall I told you how, as a result of delays in the Civil Service Commission and treasury board procedures in connection with recommendations made by the commission about the revised rates of pay and new classes for my staff, little headway had been made on the recruiting side over the past six months and that I was still short 18 auditors in my approved staff establishment. I mentioned two procedural points in particular which were still unsettled. One of these—relating to the position of my audit directors—has since been disposed of. The other, relating to the need of the position of secretary of the office of the Auditor General, still rests with treasury board.

The arrangement I made with the chairman of the civil service commission and announced to this committee last November provided that a senior officer of the commission would join my staff full time and occupy a position to be created, namely, that of secretary of the office of the Auditor General, to handle staff and administrative matters. This was a compromise arrangement designed to facilitate faster recruitment action under the procedures of the civil service commission, this officer being delegated by the commission to carry out its requirements while serving full time as the secretary of my office. The commission agreed that the officer would report directly to me and that I should reimburse them for his salary. But I cannot do this until treasury board approves the position of secretary which he has in fact been occupying in my office for the past five months.

I told you on May 26 I was 18 auditors short of my approved establishment and I explained how this shortage was affecting the scope of my work—in fact you had a clear example of this three weeks ago when, in answering Mr. Winch's question on June 4, I outlined the negligible amount of work we had done on the Prairie Farm Assistance Act payments in Regina and Edmonton over the past seven years.

The size of my presently approved establishment of 179 was worked out and agreed to with the Minister of Finance and the treasury board in July 1960—4 years ago. As I reported to the house in 1961, this figure of 179 was the minimum strength I considered at that time—that is, four years ago—necessary to carry out a basic external audit program within the framework of the then existing governmental organization. Meanwhile, over the three years since, the size of governmental organization has substantially increased in terms of its expenditures, its programs and its departments. Therefore, as

we are now in sight of filling our approved strength of 179, I shall have to ask treasury board for some additional positions, both for the now current fiscal year 1964-1965 and for the year following. I shall not like doing this but I shall obviously have no choice if we are to bring the scope of our work up to the minimum standards required by modern accepted auditing practice.

In the meantime, we hope soon to have our existing establishment up to full auditor strength. The recruitment outlook is satisfactory and, bearing any unforeseen procedural roadblocks and delays, we believe we should reach this objective by this fall so that we can be fully manned for our winter schedule. The civil service commission is doing its best to help us under the arrangement I have described while the chairman of the treasury board, the Hon. Mr. McIlraith, and the secretary of the board have demonstrated their readiness on several occasions to speed up their procedures. I have appreciated this. We have, as you know, a constant communication with the treasury over the government's accounts and naturally I do not like having to press them for action on routine staff details.

I should now like to give you a piece of good news. For the first time in its long history, the audit office expects to be able to offer young men the chance to work with us and at the same time have their service with our office count toward their degrees as chartered accountants. Three weeks ago the Institute of Chartered Accounts of Quebec approved in principle the recognition of the office of the Auditor General in the province of Quebec for the training of students-in-accounts. This means that present and future employees of my Montreal office who meet the requirements of the Institute of Chartered Accounts of Quebec will henceforth be eligible for registration as students-in-accounts and able to write their examinations to qualify themselves as chartered accountants. Thus we can offer status to our employees in Quebec equivalent to that offered by the professional auditing firms.

This marks the first time in the history of the office of the Auditor General of Canada that his office has been officially recognized in this manner, and I should like to record my appreciation to Mr. Marcel Caron, the president, and to Mr. Frank Denis, the immediate past president, and to members of the council of the Quebec institute, including the executive secretary, Mr. Douglas Mellor, for the confidence they have demonstrated in my office and for the understanding and recognition they have shown in our work.

I might add that I have asked the Institute of Chartered Accountants of Ontario for equivalent recognition and in due course I intend to approach certain of the other provincial institutes.

The CHAIRMAN: I have taken an interest in this matter, as has the last chairman and other members of the committee, in the hope that this sort of recognition would be granted to permit the recruitment of the type of young people who would be very useful. I am very pleased indeed that this effort has been successful in the province of Quebec and I would hope that since a large part of the staff of the Auditor General is employed in the province of Ontario, the same measure of success would be made there.

On behalf of the committee I would like to be able to write to Mr. Caron, the president of the institute in Quebec, and to Mr. Frank Denis, and thank them for their assistance, and for the very real benefits which have occurred to the Auditor General's office, and indirectly to this committee and to the house in supporting this high standard, and that the Quebec institute is playing a very important role in helping the work of this committee and in helping the taxpayers of Canada. So with your permission I would like to write to Mr. Caron and Mr. Denis in the province of Quebec.

Mr. TARDIF: I so move.

Mr. STEFANSON: I second the motion.

The CHAIRMAN: It has been moved and seconded. All in favour?

Motion agreed to.

Mr. WINCH: May we not have the completion of the statement before we start to ask questions?

Mr. HENDERSON: I have summed up what I had to say this morning. As I have said, I think we should press on with the existing arrangements started last January and give it at least a full year's trial, and if I cannot then report effective progress to you, further consideration should be given, in my opinion, to amending the Financial Administration Act whereby the Auditor General would be free to recruit his own staff in the same independent manner as do other offices of parliament, the crown corporations, and so on. This in essence has been the recommendation of this committee in 1960, 1961, and 1963, as you know. That completes what I have to say on this point.

The CHAIRMAN: Now, Dr. McMillan.

Mr. McMILLAN: I wondered whether or not you made application to these different organizations in the different provinces in this matter?

Mr. HENDERSON: Yes sir, I am in touch with them. Various changes have to be made in according this privilege. In the case of Ontario it is necessary to have a bylaw change, which requires the approval of their membership.

Mr. McMILLAN: How about competitive salaries?

Mr. HENDERSON: The Quebec institute found our salary scales to be fair and generally in line with those offered in private firms—not at every level, but broadly speaking, they expressed that point of view.

The CHAIRMAN: Now, Mr. Winch.

Mr. WINCH: Mr. Chairman, I am certain that we are happy with what Mr. Henderson said was good news to give to this committee. But at the same time I am disturbed at what I think to be bad news. I think it is a matter which the public accounts committee can no longer ignore.

Mr. Henderson made a statement just a moment ago that he has been unable for seven years to make an effective and proper accounting of certain operations of the government which involved a very heavy expenditure. He also pointed out in his presentation here this morning that he asked for 179 men for his staff. That request was made some four years ago, but he is not yet in a position to cope with the extension of government work. Because of the extension of the audit work he now has to make a request to the treasury board for an addition to his staff. I think this committee should know what he now feels to be the number that is required to do an effective job.

Secondly, I am most concerned about the statement made by Mr. Henderson that he himself—although he is going to accept the responsibility—will feel a little bit embarrassed that even at this moment he has not got the required staff, although the recommendation was made four years ago, and in particular that the treasury board has still failed to act in an official manner on the appointment of the secretary from the civil service commission who will be in charge of staff and administration.

I do not believe that this committee in its integrity, and in the sincerity of its work could fail to take note of what I have just said, and to express the very strong view to the treasury board that as the Auditor General is appointed by the House of Commons and is responsible wholly and solely to the House of Commons, he and his staff have a job to do, and that neither the treasury board nor anyone else should stop the complete fulfillment of his responsibility to maintain efficiently the checking of the records and reports for this committee and for the house.

Having expressed that thought, because I think it is disturbing information we have received from Mr. Henderson this morning, I would like first of all to

ask how soon he is going to acquire the 179 that he asked for four years ago, and because of the additional work which is falling upon his branch how many extra does he feel he may require to his job efficiently?

I believe that information is required and that the committee should be very firm upon insisting that the department of the Auditor General, responsible to parliament and to this committee, should have the necessary staff in order to do the job required, and that enough men will be added to the Auditor General's staff so that he is able to do an efficient job. The government has been informed by the Auditor General that he has not been able to do an efficient job for seven years in respect of certain departments because he has not been getting the people to accept the responsibility. I hope we may have further comment from Mr. Henderson, in addition to the information as to the staff he now requires. Knowing Mr. Henderson, since he was appointed to this important post, I feel he should bring us up to date on his latest application to the treasury board, and tell us when they will act in their official capacity on the appointment of a secretary in charge of staff and administration.

Mr. HENDERSON: May I speak to that?

The CHAIRMAN: Yes, please do.

Mr. WINCH: I do not want to put you on the spot, Mr. Henderson.

Mr. HENDERSON: Not at all. I am very pleased to answer your question. But may I preface it by saying how very much I dislike bringing these matters, which should be regarded as mere routine things, to the attention of the committee. But I have done so because it has been at your request that I keep the committee posted and up to date. That is, on this particular problem.

I do not know how long the treasury board will require before they approve the office of secretary that I mentioned. Presumably it will not be very long, I hope. We naturally follow up these points. I have outlined them to you, and I am hoping that we would get them through.

So far as additional positions are concerned, we are now at the point where we expect to go to treasury board shortly to obtain permission for the creation of a few extra positions. I will give you my idea of the number in just a moment, because we have filled some of these positions actually already ahead of time with stenographers. We never had anybody to do any typing, for example, at our regional office in Halifax. The senior man there had to do his own typing himself.

Mr. WINCH: You are saying that at your regional office in Halifax you never had a stenographer?

Mr. HENDERSON: No. We finally hired a stenographer to fill the job. I had to hire one to do the job. I had to take her on. So I have an auditor's position provide for it there. That is part of the procedure, and I am not quarrelling with it. But we are now at the point of going to the treasury board to ask them for additional positions which we will require for the current year. That means increasing the approved establishment now of 179 to a larger figure. I would estimate that the larger figure would probably be about 185 or 186. I would not want to be tied down to that figure, but that is our present calculation.

Mr. WINCH: Does that mean that if you could get that figure, you would be satisfied?

Mr. HENDERSON: I would then be free to bring in the balance of my men next fall.

Mr. WINCH: You would have to replace the stenographer in the auditor's position, to act as stenographer?

Mr. HENDERSON: That is right. I have been forced to put her in an auditor's position now. The number, for the ensuing year, I would assume would be

slightly over 200. I do not want to anticipate it, but it might be around 210 or it might turn out to be 215. I do not contemplate that this office will be very much larger. In fact I expect to see it level off at something like that as the years go on, providing the same pattern continues. I must have freedom of action in respect of setting up these positions so that we can be able to get the right people at the right levels. These are the matters I shall be discussing with the treasury board. What is the number on strength at the present time? it is not about 165?

Mr. G. LONG (*Audit Director, Office of the Auditor General*): I think so.

Mr. HENDERSON: I think we have about 165 altogether, including stenographers, on staff at the present time.

Mr. WINCH: You contemplate a need for about 200 to 250?

Mr. HENDERSON: I am speaking about the year 1966, for the period of 1966-67, and into 1968, assuming the present level of governmental activity remains. I would anticipate that it should be around that figure.

Mr. WINCH: At the moment you indicate a need for 186, while you now have 165.

Mr. HENDERSON: That is right. I want to see these extra positions provided during the now current year which is to end next March, and ask for 186 or so and probably around 200 to 215, beginning April 1, 1965, until March 31, 1966.

We are now in the midst of making these projections at the moment, so we may be able to obtain the people, but that is the size of the figures involved. I do not think it is very much for an external audit service for an organization the size of Canada.

Mr. FORBES: When you spoke of creating the position of secretary for the Auditor General, that would be a secretary for yourself?

Mr. HENDERSON: No, sir. It is the question of having a senior man in charge of personnel and staff matters and administrative matters. My office has never had an officer specially designated for it.

Mr. FORBES: How did they do it in the past?

Mr. HENDERSON: In the past the Auditor General himself and the assistant auditor general handled this as a side issue to their main work. The problem of following up on all the Civil service commission and Treasury board procedures involved in the recruitment and handling of staff, as you know, was so large that in my opinion we were not getting full value from our professional men. I dislike seeing qualified chartered accountants tied up on this type of work unless it is absolutely necessary. Naturally, Mr. Long and I take full responsibility for the actions of our secretary, as we must do. The secretary of the Office makes his suggestions to us and we discuss them together; but the purpose of this exercise is to delegate to him all of the running of that side of the Office and leave us free to concentrate on the professional work which is what I think we are here for.

Mr. FORBES: The work of your Office has increased greatly in the last few years.

Mr. HENDERSON: Indeed it has.

Mr. FORBES: Is this owing to the entry of the federal government into the administration of various projects which formerly were carried out by provincial governments and municipalities?

Mr. HENDERSON: That is one of the factors. It has laid on new programs and has formed new government departments. Also, as you know, it has formed some new crown corporations and agencies. All of these mean additional work for us.

Mr. FORBES: In cases where the federal government makes a contribution to some particular project administered by a province, do you audit these accounts?

Mr. HENDERSON: We work in conjunction with the provincial auditor on this type of project. That is the arrangement we prefer; we share the work.

Mr. McMILLAN: I take it that you have 179 positions established and have not gone to the treasury board for any more?

Mr. HENDERSON: No, not yet. I am just on the point of going to them because we still have a few slots left. However, in respect of the 18 persons we were short, these are auditors as distinct from stenographers and others. Auditing power is the thing in which I am specifically interested, and always must be, because auditors are my principal tools.

Mr. McMILLAN: But things are looking better?

Mr. HENDERSON: I think so, sir. That is the view of my officials and myself at the present time. You asked for a progress report, and I am being perfectly frank in giving you the outlook as we see it.

I think the arrangement Mr. MacNeill and I made as announced to the committee last November was a very fair one. Although I have not discussed this particular point with him, I believe he would share my view that we should give this a proper and fair trial. The man who is filling the office of secretary is doing his very best to help us on this problem of recruiting, but we have been held up on it over the past six months for a whole variety of reasons, as I mentioned last month. Therefore, I would urge that we just continue. I promise you I will not be backward in coming forward if I cannot report progress.

The CHAIRMAN: May we move on to paragraph 8, as follows:

Internal Control

8. In previous reports I have pointed out how, in the operations of a government department, crown corporation or other agency, effective internal control, whether in the fields of management, finance or accounting, is of prime importance, not only to the managements concerned in the discharge of their responsibilities, but to the external auditor in planning the scope of his own work. The fundamental principles underlying this have been dealt with at length by the royal commission on government organization in volume 1 of its reports published on September 6, 1962, and I have been glad to note the increasing interest in and recognition of these principles by the responsible officials of our public service.

From the point of view of internal control, the three basic requirements of any organization are accurate costs, adequate periodic financial statements and an appropriate internal audit. The need for accurate costs has been partly recognized by the Department of Finance in arranging for the estimating of the annual costs of certain major common services, by departments, and showing these costs in summary memorandum form at the beginning of the several departmental sections, commencing with the revised estimates for 1962-63 and now continued in the 1963-64 estimates book. However, while showing the approximate value of major services to be received by a department from other departments in this manner does provide useful information, it continues to have the disadvantage of relating the amounts only to the department as a whole, instead of to individual appropriations relating to the various work areas or functions. I hope, however, now that a start has been made, that steps will be taken as soon as practicable to provide for all significant cost factors in the individual appropriations and thus include the actual costs of the various programs or projects in accounts of the responsible depart-

ments, because the departments benefiting from services provided by other departments cannot be expected to be conscious of costs for which they are in fact responsible unless they are charged with them and have to pay them out of their own appropriations. In my opinion this further step could be achieved without the introduction of any complex accounting procedures.

For the past several years I have referred to the need for wider use of effective periodic financial statements for the study and control of costs by government departments and other agencies so that actual performance can be measured against either budget projections based on parliamentary appropriations or actual performance in a comparable prior period, or both. The importance of this was stressed last year by the royal commission on government organization which recommended that "departments and agencies adopt modern management reporting techniques". As part of its comprehensive audit approach, the audit office has sought to assist departments, crown corporations and other agencies in developing effective periodic financial statements.

As a matter of generally accepted auditing practice, the Auditor General, in the discharge of his statutory responsibilities, must have regard at all times for the effectiveness of accounting organizations and systems, internal control and audit, including pre-audit, and the related administrative practices of departments, crown corporations and other agencies. Internal auditing is an integral part of a department's system of management control. Its effectiveness is recognized in determining the scope of the external audit, and where the internal auditor's work is efficiently carried out, the amount of work to be performed by the external auditor can frequently be substantially curtailed. Consequently, the Auditor General is interested in the degree of management's acceptance of reported findings and recommendations of its internal auditor and in the action taken. In previous reports I have pointed out that while many of the larger departments and crown corporations maintain their own internal auditing staffs, a number have not taken steps along these lines even where the circumstances appear to justify it. On the other hand, we find that some internal auditing units are over-staffed and tend to duplicate the work of other groups. In the related field of pre-auditing, staffs are larger and methods more elaborate than modern practice requires.

The solution to these problems does not lie in engaging more staff but in making more effective use of the staffs presently engaged in internal auditing, including pre-audit work, coupled with a freer exchange of ideas among the various departments, crown corporations and other agencies on internal auditing procedures, techniques and programming. At the same time, recognition should be given to the fact that internal auditing is first and foremost a management tool to ensure good performance, and therefore it should as far as is practicable be carried out under the direction of top management by staff experienced in the techniques and requirements of the particular organization if it is to be effective.

Mr. HENDERSON: When examining similar comments I made along these lines in my 1962 report last December, members of the committee expressed interest in this subject which stresses the importance of adequate internal financial control in departments and crown corporations. In your fourth report 1963, you asked me to continue my examinations into this important area and to report further to the house on steps taken, or which should be taken, to improve the financial management in the various departments, crown corporations and other instrumentalities, and this is having my attention.

It is my understanding that as a part of studies being currently conducted by four management consulting firms into the operations of four of the largest government departments, particular attention is being directed to the field of internal auditing with a view to improving this generally along the lines I have recommended, and which, also, has been urged by the royal commission on government organization. Therefore, we are awaiting the outcome of these studies with particular interest.

It is possible, Mr. Chairman, that when Dr. Davidson is with us a week from today he might have something further to add on this point.

Mr. TARDIF: What four departments are these?

Mr. HENDERSON: The Department of Agriculture, Department of Transport, Department of Veterans Affairs, and Department of Northern Affairs and National Resources.

Mr. TARDIF: That practice is not contemplated for the Department of Public Works?

Mr. HENDERSON: I think not. They picked these four to examine them in depth. I think then, if their conclusions justify it, they can follow up the recommendations of the Glassco commission rather more safely in the others.

Mr. WINCH: Do I understand, under paragraph 8, that you were referring not only to the special study being made of the four departments, but that you also made reference to the Glassco report. The Glassco report, to a considerable extent, dealt with efficiency and inefficiency.

Mr. HENDERSON: We will come to that when we reach paragraph 11 on page 8.

Mr. WINCH: I would like to ask questions on that.

Mr. HENDERSON: I will deal with it at that time.

The CHAIRMAN: The next paragraph is paragraph 9, form and content of the estimates.

Form and Content of the Estimates

9. The importance of the estimates of proposed spending being prepared and presented to the House of Commons in the simplest and clearest manner possible must be recognized if parliament is to be in a position to give them the close study and consideration they deserve. The form of the estimates is likewise important from the accounting point of view because it determines in large measure how the subsequent accounting for expenditure is maintained and reported upon in the public accounts. Both the form and content are important to the Auditor General because of his responsibilities to parliament.

The public accounts committee in its fourth report 1961, while indicating its approval of certain improvements proposed at that time by the treasury board staff, recognized that there were other possible changes in the form of the Estimates, some of them of a fundamental nature, and recommended that these be considered early in 1962. Consideration was, however, postponed by the treasury board staff pending the publication of the reports of the royal commission on government organization, in volume 1 of which the commissioners dealt at length with and made a number of important recommendations concerning prevailing estimates procedures.

On September 30, 1963 the secretary of the treasury board furnished me with a copy of a report which, at the direction of the chairman of the treasury board, he had addressed to the chairman of the public accounts committee for attention when the committee was convened and a chairman appointed. This report outlined changes in the number and nature of votes in the annual estimates designed to reduce

the number of items by consolidation of existing ones. The report states that the treasury board hopes to introduce these changes into the main estimates for 1964-65. These changes are currently being studied by the public accounts committee in the course of its consideration of the form and content of the estimates.

Since 1960 I have recommended that consideration be given to the form of the estimates presentation with a view to providing more meaningful information, and since the four examples I gave in my 1960 report are still pertinent, I now repeat them:

- (a) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;
- (b) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving parliament an opportunity to consider the sufficiency of receipts for services rendered in relation to the costs incurred);
- (c) including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving parliament an opportunity to consider broad policies associated with their operations); and
- (d) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

It is of interest to note that the royal commission on government organization, in its report referred to above, also made recommendations along these lines.

Mr. HENDERSON: Members will recall that in my follow-up report I was able to tell you that the major improvements I had suggested to the subcommittee with regard to the revised vote pattern had been adopted by the treasury board in the presentation of the main estimates for 1964-65. However, these improvements did not include furnishing the supplementary financial information regarding crown corporations and other public instrumentalities, or the presentation of additional staff information in the estimates. The secretary of the treasury board said last December that it might not be practicable to include this information in the main estimates for 1964-65, but it is still my understanding that the treasury board will be giving effect to this when presenting the 1965-66 estimates.

Thus it will be seen that the four examples I gave on page 7 still are very pertinent, and I hope, when the present studies are completed by the treasury board in this whole area, the estimates will be set up to provide these four very basic pieces of information which I have been stressing as so important over the past four years.

The preparation of the estimates of proposed spending and their presentation to the House of Commons in the clearest and simplest manner possible is to my way of thinking, absolutely essential if parliament is to be in a position to give them the closest study and consideration they deserve. In fact, I would express the hope that the day may come when the estimates may be referred by the House of Commons to a standing committee charged with the task of examining them and reporting back to the house as is done in Westminster.

As the Chairman has mentioned, the secretary of the treasury board will be appearing before the committee next Tuesday, at which time you may wish to question him on this large and important subject. If there are any questions with which we can deal, we would take pleasure in doing so.

Mr. WINCH: I suggest we wait until we have the secretary of the treasury board.

The CHAIRMAN: Paragraph 10, form and content of the public accounts.

Form and Content of the Public Accounts

10. In previous reports I have expressed the view that as the public accounts is in effect Canada's annual financial report to its shareholders—the general public—it should conform to the highest standards of financial reporting in the country and accordingly be presented in a clear and concise manner without being encumbered with unnecessary detail.

Although attention was given to this problem by the public accounts committee in its second report 1961, I remain of the opinion that further consideration should be given towards summarizing or otherwise reducing the number of detailed listings presently included in the public accounts. On the other hand, as mentioned in previous reports, additional important information should, I believe, be disclosed in the public accounts. Examples of this are to be found in paragraph 123 suggesting a more informative disclosure of accounts receivable due to the receiver general, and in paragraph 169 suggesting the inclusion of financial statements of departmental operating activities.

In my report last year (paragraph 93) I suggested that explanatory statements be given for revenue remissions in the public accounts. As more particularly mentioned in paragraph 75 herein, it is gratifying to note that this suggestion has now been adopted in the public accounts for the year under review (pages 37.2 to 37.7).

Mr. HENDERSON: This relates to the form and content of the public accounts. This is a subject which was examined by a subcommittee of this committee in 1961. Despite the useful work done at that time, I continue to be of the opinion that further consideration should be given toward summarizing or otherwise reducing the number of detailed listings presently included in the public accounts, while, on the other hand, additional information should, I believe, be disclosed in the public accounts, examples of which I give in the second paragraph.

At the time we were discussing this matter in my follow-up report, I was pleased to tell you that following the suggestion made in my 1962 report explanatory statements were given in the public accounts for the year ended March 31, 1963, covering revenue remissions.

The CHAIRMAN: Might I just interject here. I should have mentioned that I was in touch with Mr. Balls, the comptroller of the treasury, and he is in accord with the view that this might be the subject of discussion at some future date with a subcommittee. You may recall last month, I think, we discussed the formation of a subcommittee. This is a matter which involves the time and ability of the staff of the treasury board and the Auditor General in sitting down with a subcommittee. I hope to take this up with the steering committee and be able to tell you that something will be done about it.

The next item is paragraph 11, headed findings of royal commission on government organization.

Findings of Royal Commission on Government Organization

11. If administrative action has caused or contributed to waste of public money, it is the duty of the Auditor General to report such instances as he considers should be brought to the notice of the House of Commons. While some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining

its own operations as, for example, through the medium of the internal audit function where this exists in the various departments, crown corporations and other agencies. Such cases are always the subject of close study by the Auditor General because of his responsibilities to parliament.

By the same token, it is the duty of the Auditor General to study reports prepared by or for the managements of departments and agencies directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent that such reports correctly indicate where and how savings can be made, the Auditor General has a responsibility to parliament to follow through and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to enquire why.

The past year has seen final publication by the royal commission on government organization of five volumes containing 24 reports on its examination of the organization and methods of operation of the departments and agencies of the government of Canada. These reports, which have been the subject of widespread publicity, contain several hundred recommendations many of which deal directly or indirectly with areas in which public funds might be saved or better value obtained for money spent. The reports and the recommendations they contain are the subject of continuing study by a government office specifically created for the purpose, namely, the bureau of government organization which is responsible to the president of the privy council. The bureau is engaged in assessing the practicability of the various recommendations and in co-ordinating efforts by the managements concerned toward remedying the situations disclosed. It is essential that all of the commissioners' findings be thoroughly reviewed and discussed with the responsible officials in this way before final solutions can be developed and decisions taken to implement the recommendations in whole or in part, or not at all. On November 5, 1963 the president of the privy council tabled in the House of Commons a listing of 68 of the commissioners' recommendations which the government has approved to date and in respect of which implementation is proceeding.

The real value of a report of this type to top management lies in the accuracy of the fact-finding and the manner in which the consultant assesses and presents these facts in diagnosing the situation under review. Recommendations he may make toward remedying undesirable features of such situations are important but the decision as to the extent such recommendations are to be implemented is the responsibility of the management.

It is not my intention to express views at this time on any of the individual recommendations. With regard to the commissioners' findings, however, I believe it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with not only in the interest of improving efficiency but because of the substantial savings of public funds which could result.

I shall consider it to be my responsibility to follow through on the action taken on such findings of the royal commission on government organization and to report thereon to the House of Commons.

Mr. HENDERSON: The situation I have outlined on this subject on page is new so far as my reports to the house are concerned. It stems from the findings contained in the 24 reports issued by the royal commission on government organization covering the commission's examination into the organization

and methods of operation of the departments and agencies of the government of Canada.

The statements made in my first two paragraphs furnish the key to the study my officers and I are seeking to bring to this work, because I conceive it to be my responsibility to you to study all reports prepared by, or for, the management of departments and agencies which indicate how public money can be saved by the elimination of wasteful practice and unnecessary or uneconomical operation.

On the other hand, I do not conceive it to be my responsibility to assess the practicability of any specific recommendations made because the decision with respect to the extent to which, or the way in which, such recommendations can and will be implemented always must be and is the sole responsibility of the management. I am thus concerned only with the findings of this royal commission because I believe it to be of considerable importance that those findings related to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interest of improving efficiency, but because of the substantial savings of public funds which could result.

Mr. Chairman, I should appreciate any views members may have on this aspect of my responsibility to parliament. If you are not in agreement, I should be particularly interested in hearing your comments.

Mr. WINCH: Mr. Chairman, I believe this committee owes a debt of gratitude to the Auditor General for drawing the attention of the committee to paragraph 11. I think, perhaps, sir, we should have gone into this in years past. However, now it is officially before us. I believe the meetings we have held thus far must have created some disturbance in the minds of the members in respect of whether, although in some aspects the government service was operating efficiently, perhaps there was wasteful expenditure of government funds. This came to my mind in particular with reference to some sections of the Auditor General's report of 1962 where Mr. Henderson informed us of unproductive expenditures running into a great amount of money, and then on questioning said this was only based on a test audit; in other words, only a few examples had been taken.

If my memory is clear I think he indicated it might have been far more serious if a full audit had been made and not just a test audit. As members of the House of Commons we have a definite responsibility to see that the taxpayers' money is spent most efficiently. Also, as members of this committee, we have a responsibility to the House of Commons to make whatever recommendations, or express whatever thoughts we have in respect of practices which are out of date, or methods which are inefficient.

Personally, I am very happy that the Auditor General has made such an intensive study, and has felt it important to draw certain matters, and this particular matter, to our attention. I do not know the views of the other members of the committee, of course, but it is my own view that the responsibility of the Auditor General is not only to audit the accounts and to see that they have the authority of parliament for the expenditures made, and report where he thinks they have been improperly made, but I think the responsibility of the Auditor General goes beyond that; if he, in the opinion of himself and his staff, sees something that has been done improperly in so far as efficiency is concerned, then it is the responsibility of the Auditor General to bring it to the attention of the House of Commons and to this committee.

There are other members here who know this better than I do, because they have been in business. However, I have been connected with organizations over the past 30 years, not only of a political nature, but also of an administrative nature, in that I am a director of some trust funds. I am a managing

director of one, and I want my auditor to bring to my attention anything where he thinks we can spend the money with the same results, but at a saving.

With those general remarks, I would like to express my personal opinion, which I hope is that of all other members, that we feel it is the responsibility of the Auditor General, not only to check the books to see the money is properly expended, but in addition if he finds what in his opinion is an operation which could be conducted at a saving to the people, he should continue this procedure and if he has not done it in the past, start it in the future. I think we have had brought to our attention a most important matter, and I think he should have the assurance of this committee that if he does proceed along these lines, he has the full authority of the House of Commons.

Mr. HENDERSON: Thank you very much. I should appreciate any other views which members may have.

Mr. NOWLAN: We will be having Dr. Davidson appear before us in a week's time. He is the head of the bureau to which the Auditor General refers, and I think it would be wise to defer discussion on this until he appears. There is an overlapping of jurisdiction here as the Auditor General has pointed out. I think we should have all the views and reconcile them. We have the comptroller of the treasury with an auditing staff: we have the treasury board; we have the head of this bureau, and the Auditor General. This brings about a difficult overlapping. As the Auditor General points out, I think this is the time to clear the line. I believe this can come only through discussion between the various officials, and as you say, Mr. Chairman, through a subcommittee. This is a very interesting and complex problem.

Mr. HENDERSON: I take it, then, that you have some question in your mind in respect of whether I have responsibility for looking at waste and extravagance?

Mr. NOWLAN: No; not for waste and extravagance. I know you have no responsibility for administration.

Mr. HENDERSON: I tried to make clear that I do not want it.

Mr. NOWLAN: But you certainly have for waste. However, there again, what is waste? There may be some waste involved by duplication of effort.

Mr. WINCH: What I had to say had nothing whatever to do with the power of the comptroller of the treasury or the power over expenditures made; but, if from the Auditor General's point of view, in the expenditures which have been made and correctly authorized by the comptroller of the treasury and the department he finds there was inefficiency, then he should not interfere with the expenditure, but be prepared to make a report or recommendation to this committee with reference to how the authorized expenditure may have been made in an inefficient manner and by whom. That is the attitude I took.

Mr. NOWLAN: I think it is a matter for discussion when Dr. Davidson is here.

Mr. HENDERSON: Of course, the secretary of the treasury board and the comptroller of the treasury are in a position to do something about it; I am not, other than to put my finger on it and ask the question, what are you doing about it? They have the tools with which to fix it. They are the management and it is their prerogative in this case to adopt the recommendations amend them or discard them.

Mr. WINCH: Is my assumption correct that what you are saying, or asking the advice of the committee on, is this: Is it your responsibility as Auditor General not only to audit the books, but also to be the watchdog of the House of Commons in respect of how that money is spent?

Mr. HENDERSON: That is precisely the point; that is the way I interpret it. That is the way it has been interpreted from the days of Mr. Gladstone. If the Auditor General feels there is waste and extravagance and feels these things should be brought to the attention of the House of Commons, it is his responsibility to do so. That has been done for the past 80 or 90 years. The same situation prevails in the United States. The other people to whom Mr. Nowlan refers are the management; they have the tools with which to remedy these things; I have not. I bring these things to their attention, but it is for them to decide how to eliminate them.

Mr. WINCH: Have you had the opportunity of making a study of the operations and responsibility of the Auditor General's department in Canada compared to the operations and responsibilities of the Auditor General's department in the United Kingdom?

Mr. HENDERSON: As a matter of fact, it may be of interest to the committee to know that I have given very considerable thought to this concept of my responsibility, so much so that I discussed it for several hours with all the Auditors General of the British commonwealth at a conference in London last fall in order to determine the extent they would pursue this, how they would regard this, and how they operate. Without exception I received 100 per cent endorsement.

Mr. WINCH: This is the practice in those countries.

Mr. HENDERSON: Yes, sir; that is their concept. I just mention that in passing. Believe me, I am not looking for any extra work, but I do believe this was something I have to do.

Mr. WINCH: Have you a transcript of that conference?

Mr. HENDERSON: It was an informal gathering and we do not usually quote one another.

Mr. McMILLAN: I agree with the Auditor General, but does not the implementation of any part of the Glassco commission report rest with the government?

Mr. HENDERSON: Yes, sir, entirely; not with me.

Mr. McMILLAN: There was a question which came up yesterday in the house. I think the government was asked whether or not the budget of the C.B.C. was being referred to the special committee. That immediately brought to mind Mr. Harkness' motion that we take up the accounts of the C.B.C., with the idea of seeing whether the Glassco commission's recommendations were being implemented. It occurred to my mind that probably we were taking up something which would not be within our terms of reference. It did not seem to me to be too clear, I wondered whether it might be a matter of policy rather than a matter of auditing. I would like your opinion on that, Mr. Chairman.

The CHAIRMAN: I talked yesterday to Mr. Ouimet and told him that I was sending over to him the terms of reference generally to this committee and also this particular resolution so that he might have a chance to examine it. I also indicated that in my view—of course I could not speak for the committee—and in my experience this committee could not enter into the realm of policy. We simply examine the financial statement and deal with questions on the post examination of moneys which had been spent, because I thought he was interested in the experience which he and his officials had when they appeared before a broadcasting committee which was set up.

I told him that in my view this public accounts committee did not in any way resemble a broadcasting committee which had special terms of reference.

You have brought up the question whether or not implementation of the Glassco commission recommendation is a matter with which this com-

mittee should be concerned, or would have jurisdiction under its terms of reference to deal with. That is something we can talk about later on. I think possibly at the time when Mr. Ouimet and his officials appeared we could look at it. If there is any real question whether we have the right to deal with it, I am sure the committee would not want to enter into the matter. Certainly as Chairman I would be bound to call your attention to it at the time. I am glad you have brought this to my attention. Do we have the motion here?

Mr. McMILLAN: I do not think the motion as such included a reference to the Glassco commission, but Mr. Harkness mentioned it at the end of the motion.

The CHAIRMAN: The motion reads that the public accounts committee call the officials of the C.B.C. before the committee in order to examine into the accounts of the corporation including the extent to which the recommendations of the Auditor General and the Glassco commission have been implemented.

I have in front of me only seven recommendations of the Auditor General and the Glassco commission which have been implemented, and these must be related to the first part of it, which is the examination of the accounts. I think that the Auditor General's recommendation and the Glassco commission's recommendation must be related to the whole examination of the account. I do not think we would have any jurisdiction to go beyond this. That is my view. The committee would have to decide it for themselves.

Mr. McMILLAN: It occurred to me that we would need to have their current budget in order to go into it.

The CHAIRMAN: That is one of the things I discussed with Mr. Ouimet. I hoped to be in touch with him this morning. The question is whether under the current budget we are limited by our general terms of reference from the House of Commons to 1962 and 1963.

Mr. McMILLAN: Before you discuss what they are doing currently, you need to have their current budget.

Mr. NOWLAN: May I ask what jurisdiction the Auditor General has over the C.B.C. at the moment? Does the Auditor General audit the accounts of the C.B.C.?

Mr. HENDERSON: I have no jurisdiction over the C.B.C. I am only the auditor of it.

Mr. NOWLAN: You are the auditor of the C.B.C.?

Mr. HENDERSON: Yes, sir.

Mr. NOWLAN: So you would not be able to discuss, criticize, or comment on the evidence to be given by officials of the C.B.C.?

Mr. HENDERSON: If requested to do so by the committee, I might, provided that I did not trespass into the policy field.

Mr. NOWLAN: I know that you have had some considerable experience in that field.

Mr. WINCH: I think we will have a most important witness, since the Auditor General previously had something to do with the C.B.C. in the way of audits?

Mr. HENDERSON: I was the chief financial officer of the corporation prior to present office.

Mr. WINCH: You should prove to be a rather interesting witness when we get down to it.

Mr. HENDERSON: I appeared before the broadcasting committee on June 1, 1961, when the broadcasting committee examined its affairs, and at which time I was asked to draw upon my experience as chief financial officer, and also as auditor. That was three years ago. You will appreciate that I am not as sufficiently au fait with everything today as I would be were I recently one of its officers.

Mr. FANE: When the witnesses of the C.B.C. are here, are we to be allowed to question them on all their expenditures?

The CHAIRMAN: Well, so long as it comes within the terms of the motion. We are limited first by our terms of reference from the House of Commons, and second, we are limited to stay within the terms of reference of the motion which the committee accepted at its last meeting, and which motion I just read. It will then become the task of the Chairman with the guidance and assistance of the members of the committee to interpret that motion in case there should be any dispute. But I am sure there will not be.

Mr. FANE: How naive can you be?

The CHAIRMAN: Now, may we continue. Are there any more questions under paragraph 11?

Mr. TARDIF: I think this should be taken up. They are actually definite terms of reference. I know that the Chairman will hold the committee to the terms of the motion, and for myself, I resent the use of the word "naive".

Mr. O'KEEFE: I resent the rather veiled innuendo, but not too heavily veiled.

The CHAIRMAN: I do not think there was too great an imputation. I think that Mr. Fane felt that I would exercise my responsibility to make sure that we kept clearly within the general terms of reference and within the specific terms of this particular resolution.

Mr. FANE: My remark was made solely with the purpose of expressing to the Chairman the fact that he might be a little naive in hoping that nobody would ask questions that they should not ask.

Mr. TARDIF: The only reason I took it up was that it might not read in exactly the way it was said, when it appears in the record.

Mr. FANE: No. They do not perhaps know that I have known the Chairman all his life.

Mr. TARDIF: You cannot put your smile on the record.

Mr. WINCH: It is on the record now.

Mr. McMILLAN: Desirable as this examination may be, I think the terms of our motion actually go beyond the terms of reference. I think it would take us into the realm of current operations.

The CHAIRMAN: Well, I feel this way about it. When did the Glassco commission make its report?

Mr. HENDERSON: I think it was in 1962 or 1963, somewhere in there. It would have been 1962, I think.

The CHAIRMAN: I do not want to be bound by this kind of thinking now. I think we should wait until we come to it. But speaking generally I think that the motion as it reads now limits us to the extent that the Glassco commission recommendations have been implemented, as indicated within the Canadian Broadcasting Corporation's financial statement for the fiscal year ending March 31, 1963. I think that is how I would read the motion. Thank you, Mr. Henderson. Now, are there any more questions under paragraph 11?

Mr. HENDERSON: We now turn to the summary of expenditures for the fiscal year ending March 31, 1963.

Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1963, prepared by the Department of Finance for inclusion in the public accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as exhibit 1 to this report. The statement shows a deficit of \$692 million for the year, in comparison with a deficit of \$791 million for the preceding year.

As you can see paragraph 2, shows a deficit of \$692,000,000, for that year, and for the year before \$791,000,000, that is for the preceding year.

Paragraph 13 deals with expenditure as follows:

Expenditure

13. The summary of appropriations, expenditures and unexpected balances, by departments, for the year ended March 31, 1963, as published in the public accounts, is reproduced as Exhibit 3 to this report and shows appropriations of \$6,690 million, expenditure of \$6,570 million and unexpended balances of \$120 million.

Paragraph 14 reads:

14. Of the \$6,690 million of appropriations available for expenditure in the year, \$2,588 million was provided by continuing statutory authorities and \$4,063 million was granted by Appropriation Acts (Nos. 3, 5, 6, 7 and 8 of 1962 and the special Appropriation Act, 1963) while \$39 million remained available from continuing 1961-62 appropriations (Votes 614 and 662).

Of the \$6,570 million of expenditure during the year, \$2,588 million (39 per cent) was incurred under the continuing statutory authorities, with \$3,982 million (61 per cent) being spent under the authority of the appropriations granted for the year.

Of the \$120 million of unexpended balances at the end of the year, \$93 million lapsed in compliance with section 35 of the Financial Administration Act and \$27 million of the Department of Labour vote 32a remained available for expenditure in 1963-64 because of the special wording in the appropriation, which is as follows:

Payments in accordance with terms and conditions approved by the governor in council to provinces and in respect of Indian bands under the municipal winter works incentive program during the 1962-63 and 1963-64 fiscal years of amounts not exceeding one-half of the cost of labour incurred in the period from the 15th day of October, 1962 to such day in the fiscal year 1963-64 as may be determined by the governor in council; and to authorize payments in those fiscal years to provinces in respect of previous municipal winter works incentive programs in accordance with terms and conditions approved by the governor in council—\$30,000,000.

The date determined by the governor in council in accordance with this provision was May 31, 1963.

In this paragraph you will note the expenditure of \$6,570 million during the year, and that 39 per cent was incurred under continuing statutory authorities with 61 per cent being spent under the authority of the appropriations granted for the year.

The CHAIRMAN: Paragraph 15 is next:

15. In considering the total of \$93 million for lapsed balances at the close of the fiscal year (lapsed balances totalled \$247 million at the close

of the preceding year) it should be kept in mind that parliament had not, up to the time of its dissolution on February 6, 1963, approved the main or supplementary estimates for the year and the financing of expenditure was therefore by means of interim supply during the first ten months of the year and governor general's special warrants during the last two months of the year. The amount of \$93 million largely represents the extent to which provision was made by the special warrants beyond what proved to be required to make "payments urgently required for the public good". Comments regarding the procedure followed in determining the amounts provided by the special warrants are made in paragraph 45 of this report.

Mr. HENDERSON: Paragraph 15, shows how \$93 million of the unexpended balances of the \$120 million for the year lapsed in compliance with section 35 of the Financial Administration Act, compared with the total of \$247 million at the close of the preceding fiscal year. This amount of \$93 million largely represents the extent to which provision was made by the special warrants beyond what proved to be required to make "payments urgently required for the public good" under the Governor General's special warrant procedure. We shall be referring to this later under paragraph 45 of the report.

I deal now with paragraph 16.

16. The following table summarizes the expenditure, by departments, for the fiscal year 1962-63, in comparison with the corresponding amounts for the two previous years:

	1960-61	1961-62	1962-63
Agriculture	\$ 264,915,000	\$ 286,684,000	\$ 234,827,000
Canadian Broadcasting Corporation	66,766,000	78,161,000	80,816,000
Citizenship and Immigration	61,049,000	65,016,000	66,237,000
External Affairs	103,023,000	95,571,000	85,197,000
Finance	1,460,027,000	1,511,953,000	1,355,080,000
Labour	121,336,000	168,885,000	348,236,000
Mines and Technical Surveys	59,120,000	67,599,000	71,130,000
National Defence	1,517,531,000	1,626,104,000	1,574,854,000
National Health and Welfare	887,147,000	1,040,276,000	1,123,421,000
National Revenue	73,261,000	75,330,000	78,608,000
Northern Affairs and National Resources ..	71,613,000	79,367,000	87,564,000
Post Office	178,372,000	185,003,000	189,344,000
Public Works	200,892,000	188,813,000	171,385,000
Royal Canadian Mounted Police	56,023,000	60,497,000	65,424,000
Trade and Commerce ...	24,447,000	42,447,000	30,365,000
Transport	336,447,000	410,391,000	416,019,000
Veterans Affairs	292,298,000	333,223,000	335,602,000
Other departments	183,834,000	205,326,000	256,233,000
	<u>\$5,958,101,000</u>	<u>\$6,520,646,000</u>	<u>\$6,570,342,000</u>

Comments are made in the following paragraphs regarding the significant increases or decreases in individual appropriations or groups of appropriations which mainly accounted for the variations between the departmental expenditure totals listed above for 1961-62 and 1962-63.

Paragraph 16 is a simple summary of expenditure by departments for 1962-1963 compared with the two preceding years.

I shall now deal with paragraphs 17 to 33:

17. *Agriculture.* The decrease of \$52 million or 18% in expenditure by this Department in 1962-63 in comparison with the preceding year was more than accounted for by decreases of \$40 million—from \$47 million to \$7 million—in the deficit of the Prairie Farm Emergency Fund (see paragraph 46), \$40 million in payments to western grain producers (there being payments of only \$139,000 in 1962-63) and \$14 million in assistance payments on storage costs of grain. However, these reductions in the department's expenditures were partly offset by an increase of \$50 million—from \$22 million to \$72 million—in the net operating loss of the Agricultural Stabilization Board, mainly due to payments for the stabilization of the price of butter.

18. *Canadian Broadcasting Corporation.* The appropriations providing for grants to this Corporation were charged \$81 million during the year, an increase of \$3 million or 3.3% over 1961-62. The increase was due to the higher net operating requirements of the radio and television services which amounted to approximately \$73 million in 1962-63 compared with \$70 million in the preceding year.

19. *External Affairs.* The decrease of \$10 million or 11% in this expenditure was more than accounted for by a reduction of \$8 million (17%) in contributions to the Colombo Plan Fund, and to there being no expenditure in the year comparable to the \$6 million outlay in 1961-62 for the United Nations Congo Ad Hoc Account. On the other hand, there were increases of \$2 million in the cost of representation abroad and \$1.5 million in direct assistance to other countries.

20. *Finance.* The 1962-63 expenditure of \$1,355 million by this Department was \$157 million or 10% less than the total spent in the preceding year. There was a significant decrease of \$261 million—from \$503 million to \$242 million—due to the termination of payments under the Federal-Provincial Tax-Sharing Arrangements Act, 1956, c. 29 (under the Federal-Provincial Fiscal Arrangements Act, 1960-61, c. 58, payments of \$368 million were made to the provinces with effect from April 1, 1962 out of a special account to which are credited provincial taxes collected on behalf of the provinces). The decrease of \$261 million was partly offset by increases of \$79 million (10%) in interest on the public debt, \$10 million in premium, discount and exchange expense (a credit in 1961-62) and \$7 million (36%) in grants to universities.

21. *Labour.* Expenditure by this Department increased by \$179 million or 106% over the preceding year, largely accounted for by payments to the provinces to provide financial assistance for vocational and technical schools and training programs increasing by \$172 million—from \$36 million to \$208 million.

22. *Mines and Technical Surveys.* The increase of \$4 million or 5% in this expenditure in 1962-63 was largely due to an increase of \$3 million (22%) in outlays under the Emergency Gold Mining Assistance Act, R.S., c. 95.

23. *National Defence.* The expenditure of \$1,575 million in 1962-63 by this Department was \$51 million or 3% less than in the preceding year due to a reduction of \$67 million (9%) in expenditure of the Royal Canadian Air Force, partly offset by an increase of \$14 million—from \$11 million to \$25 million—in Mutual Aid to NATO countries. Expenditures of the other Services were approximately the same as in 1961-62.

24. *National Health and Welfare.* The expenditure of \$1,123 million represented an increase of \$83 million or 8% in 1962-63 compared with the preceding year and was largely accounted for by increases of \$53 million (19%) in the government's contributions under the Hospital Insurance and Diagnostic Services Act, \$11 million (2%) in family allowance payments and \$7 million (24%) in old age assistance.

25. *National Revenue.* Of the \$3.3 million or 4.4% increase in expenditure recorded for this Department in 1962-63, \$0.7 million (1.7%) was in the customs and excise division and \$2.6 million (7.3%) in the taxation division, due to general increases in administrative costs in both divisions.

26. *Northern Affairs and National Resources.* Expenditure by this Department increased by \$8 million or 10% in comparison with 1961-62. The most significant change was in the northern administration branch where expenditure was up \$10 million—from \$32 million to \$42 million. Expenditure by the water resources branch was up \$3 million, more than doubling the amount spent by this branch in the preceding year. These increases were partly offset by decreases of \$3 million (10%) in the amount spent by the national parks branch and of \$2 million (14%) in contributions to provinces to assist in the development of roads leading to resources.

27. *Post Office.* This expenditure increased by \$4 million or 2% in the year, due mainly to general increases in the cost of operations.

28. *Public Works.* The decrease of \$17 million or 9% in expenditure by this Department compared with the preceding year was mainly accounted for by a reduction of \$9 million (21%) in outlays connected with the construction of the Trans-Canada highway and one of \$6 million (18%) in harbours and rivers engineering services.

29. *Royal Canadian Mounted Police.* Expenditure incurred by the force increased by \$5 million or 8% during 1962-63 mainly in the cost of operation and maintenance of the land, air and training divisions.

30. *Trade and Commerce.* Expenditure by this Department decreased by \$12 million or 28% during the year under review due primarily to decrease of \$11 million in outlays by the dominion bureau of statistics—from \$12 million to \$1 million—in respect of the 1961 decennial census of Canada.

31. *Transport.* Although the expenditure of \$416 million by this Department in 1962-63 represented an increase of only \$6 million or 1.4% over the preceding year, there were significant changes in several individual expenditure classifications. There were increases of \$20 million—from \$2 million to \$22 million—in capital subsidies for the construction of commercial and fishing vessels, \$12 million (42%) for railway and steamship services, and \$9 million (18%) for marine services. Largely offsetting these increases were reductions in the deficits of the Canadian National Railways and Trans-Canada Air Lines of \$18 million (27%) and \$3 million (45%) respectively, and a decrease of \$13 million (9%) in air services, together with a decrease of \$3 million (3%) in outlays by the Board of Transport Commissioners.

32. *Veterans Affairs.* An increase of \$8 million (9%) in war veterans allowances and other benefits was largely offset by minor decreases in other items of expenditure classification resulting in the over-all expenditure of \$336 million by this Department being only \$2 million or 0.7% more than in the preceding year.

33. *Other departments.* The increase of \$51 million in the amount shown for "other departments" in the table in paragraph 16 was due largely to the \$25 million write-off in 1962-63 of the undepreciated capital cost of the NRU reactor of Atomic Energy of Canada Limited and the \$11 million expenditure by the Office of the Chief Electoral Officer for the general election in June 1962.

Paragraph 17 to paragraph 33 simply show the nature of the major changes taking place in the expenditures of the various departments, following the order in which they are shown in the tabulation under paragraph 16.

I do not know whether members have any questions respecting these individual departments, Mr. Chairman, but if they do, we shall do our best to answer them. My audit directors concerned with the departments are here and will be happy to answer them right off, or to obtain the information that you might want. We have sought to explain the major swings in the figures.

Mr. WINCH: I do not believe the Auditor General would have it here, but if he does not think it would take too much work, under paragraph 27, in connection with the post office, I wonder if he could explain how this expenditure increased by \$4 million in operations? Is it possible? "

Is it possible to find out whether there was a general increase, or was it due to an increase in overhead for the carriage of second and third class mail? Would it be possible to obtain that kind of breakdown for us?

Mr. LONG: Well, the charges applicable to any particular class of mail are in memorandum form and are determined by a special study. The expenditure accounts do not show this breakdown of costs because you cannot spread individual salaries or individual transportation costs over the various classes of mail. This is something you have to get from a cost ascertainment study by the post office. In the case of an increase to this extent I would guess that most of it is due to an increase in salary over the whole operation.

Mr. WINCH: And the same with respect to paragraph 29 for the R.C.M.P.?

Mr. HENDERSON: I would expect so. Would that not be the case, Mr. Smith?

Mr. D. A. SMITH (*Supervisor, Auditor General's Office*): I am not aware of any particular reason for this increase which I presume was spread over the expenditure picture.

Mr. HENDERSON: It is the biggest single factor for most of the increases in so far as operating expenditures are concerned, because wages and salary are quite the biggest body of costs that we have, as you know. If there are no further questions under this section might I now refer to the revenue portion which begins on page 13, under paragraph 34 and 35.

Revenue

34. The Summary of Revenue, by main classifications and departments for the year ended March 31, 1963, prepared by the Department of Finance for inclusion in the public accounts and certified by the

Auditor General, is reproduced as exhibit 4 to this Report. The summary shows tax revenues accounting for \$5,237 million of the total revenue of \$5,879 million.

35. The following table summarizes the revenue, by principal sources, for the past three years:

	1960-61	1961-62	1962-63
Tax revenues:			
Personal income tax	\$ 1,711,160,000	\$ 1,792,656,000	\$ 1,744,626,000
Corporation income tax	1,276,629,000	1,202,054,000	1,182,837,000
Income tax on dividends, interest, etc., going abroad	88,174,000	112,306,000	129,137,000
Sales tax	720,617,000	759,678,000	805,971,000
Other excise taxes	290,658,000	262,526,000	260,378,000
Customs duties	498,698,000	534,516,000	644,992,000
Excise duties	344,945,000	362,799,000	381,866,000
Estate tax	84,879,000	84,579,000	87,143,000
Other tax revenues	17,000	51,000	27,000
	5,015,777,000	5,111,165,000	5,236,977,000
Non-tax revenues:			
Return on investments	283,769,000	307,502,000	311,861,000
Net postal revenue	173,594,000	183,679,000	192,772,000
Other non-tax revenues	144,540,000	127,278,000	137,099,000
	601,903,000	618,459,000	641,732,000
	<hr/>	<hr/>	<hr/>
	\$ 5,617,680,000	\$ 5,729,624,000	\$ 5,878,709,000
	<hr/>	<hr/>	<hr/>

We give a breakdown here of the total revenues, which as you can see amount to \$5,879 million arising from the tax revenue and non-tax revenues, and we compare that with similar revenue income for the two preceding years.

Paragraph 36 is next:

36. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, R.S., c.200. These collections, which amounted to \$691,139,000 in the year, were credited to the Old Age Security Fund. A summary of the transactions relating to this fund during the year, in comparison with the corresponding amounts for the two previous years, is given in paragraph 106.

Paragraph 36 shows that the amount for revenues totalled does not include collections of taxes levied under the Old Age Security Act. This total of \$691 million in the year was credited to the Old age security in the summary budget which is shown later in the report under paragraph 106 which will be coming up for discussion later.

Next is paragraph 37.

37. *Excise taxes.* The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1963, with comparable amounts for the two previous years:

	1960-61	1961-62	1962-63
Cigarettes	\$ 172,197,000	\$ 185,176,000	\$ 195,313,000
Manufactured tobacco ..	18,697,000	19,599,000	19,123,000
Toilet articles and preparations	8,406,000	9,397,000	10,142,000
Television sets and tubes	8,466,000	9,570,000	10,059,000
Phonographs, radios and tubes	7,460,000	8,853,000	9,875,000
Jewellery, clocks, watches, chinaware, etc.	5,943,000	5,577,000	5,793,000
Wines	3,224,000	3,350,000	3,727,000
Cigars	2,755,000	2,775,000	3,372,000
Sundry excise taxes	4,212,000	3,943,000	3,350,000
Automobiles	59,627,000	25,270,000	
Refunds and drawbacks .	— 329,000	— 10,984,000	— 376,000
	<u>\$ 290,658,000</u>	<u>\$ 262,526,000</u>	<u>\$ 260,378,000</u>

The reduction of \$34 million in 1961-62 in collections of excise tax on automobile sales, and the elimination of such collections in 1962-63, resulted from the repeal of the tax effective June 21, 1961. The repeal of this tax, which was accompanied by remission of the tax on automobiles in the hands of dealers, also resulted in the large amount of refunds and drawbacks in 1961-62.

Paragraph 37 contains a summary of excise taxes collected, and it indicates the non-existence of any excise tax on automobiles in 1962 and 1963, as explained in the note.

Paragraph 38 reads:

38. *Customs duties.* The increase of \$110 million in customs duties in 1962-63, in comparison with the preceding year, was largely due to the collections under the surcharge on imports order of June 24, 1962, by means of which customs duties on various classes of imports were increased by 5%, 10% or 15% ad valorem, and which remained in effect, with modifications, during the balance of the fiscal year.

In this paragraph we make reference to an increase of \$110 million in customs duties for 1962 and 1963 which is largely due to collections under the surcharge on imports order of 1962.

The CHAIRMAN: Paragraph 39 is next:

39. *Excise duties.* A listing of the excise duties collected during the year ended March 31, 1963, in comparison with the corresponding amounts for the two previous years, is given in the following table:

	1960-61	1961-62	1962-63
Cigarettes	\$ 140,365,000	\$ 151,034,000	\$ 157,049,000
Spirits	108,502,000	114,088,000	122,099,000
Beer	90,971,000	92,716,000	98,147,000
Other excise duties	9,328,000	9,521,000	9,463,000
Refunds and drawbacks .	— 4,221,000	— 4,560,000	— 4,892,000
	<u>\$ 344,945,000</u>	<u>\$ 362,799,000</u>	<u>\$ 381,866,000</u>

Mr. HENDERSON: Paragraph 39 represents a list of excise duties collected during the year as compared to the two previous years.

Paragraphs 40 and 41 follow:

40. *Return on investments.* The following is a listing of the revenue from the various investments in 1962-63, along with the comparable figures for the two previous fiscal years:

	1960-61	1961-62	1962-63
Bank of Canada	\$ 90,175,000	\$107,693,000	\$ 96,680,000
Central Mortgage and Housing Corporation	59,576,000	71,754,000	79,925,000
Exchange Fund Account ..	32,536,000	32,606,000	35,227,000
Loans to National Governments	30,280,000	29,485,000	28,145,000
Deposits with chartered banks	6,645,000	6,394,000	14,395,000
Securities Investment Account	5,063,000	15,068,000	12,351,000
Farm Credit Corporation ..	4,127,000	5,962,000	8,482,000
Veterans' Land Act loans ..	5,212,000	5,895,000	6,549,000
Northern Ontario Pipe Line Crown Corporation	4,299,000	4,310,000	4,087,000
Canadian National Railways	4,982,000	1,452,000	3,824,000
National Harbours Board ..	3,884,000	3,943,000	3,631,000
Eldorado Mining and Refining Limited	4,935,000	5,000,000	3,000,000
Polymer Corporation Limited	3,000,000	3,000,000	3,000,000
The St. Lawrence Seaway Authority	13,149,000		
Other loans and investments	15,906,000	14,940,000	12,565,000
	<u>\$283,769,000</u>	<u>\$307,502,000</u>	<u>\$311,861,000</u>

41. The amounts shown for revenue from the investment in the Bank of Canada represent the annual profits earned by the Bank and surrendered to the receiver general as required by section 28 of the Bank of Canada Act, R.S., c.13.

The Central Mortgage and Housing Corporation amount for 1962-63 comprised \$74,337,000 (\$66,022,000 in 1961-62) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, and \$5,588,000 (\$5,732,000 in 1961-62) representing the profit for the corporation's financial year ended December 31st which was transferred to the receiver general as required by section 30 of the act.

The absence of a return from the investment in the St. Lawrence seaway authority in 1961-62 and again in 1962-63 was due to the necessity of deferring payment of the interest which accrued on loans made to the authority. Of the \$13,149,000 shown as revenue from the investment in the authority in 1960-61, \$9,500,000 was received out of further borrowings by the authority from the Minister of Finance expressly for the purpose of paying the interest, as was mentioned in the 1961 report (paragraph 63).

These paragraphs show revenues derived by the crown from its various investments in 1962 and 1963 compared with previous years.

Mr. WINCH: May I ask one question on paragraph 40? These are investments which are basically in crown corporations. From my understanding after looking over the annual report of the Polymer Corporation Limited, which is quite a profitable enterprise, is there some peculiar arrangement whereby revenues and profits do not vary from year to year so that they will always be able to make a \$3 million return to the government? If its revenue varies and the profit varies, apparently the return to the government on the investment never varies. Is there any arrangement?

Mr. HENDERSON: I would not say there is any arrangement, to my knowledge. Polymer is among our most successful crown corporation operations. In recent years it has been expanding in terms of setting up plants and subsidiary companies which, as you know, principally are within the European common market. They have completed erection of a very large specialty rubber plant in Strasbourg in France and more recently a butyl plant in Antwerp in Belgium. In order to do this, they have sought to use their earnings to the maximum extent possible and there has been a drawing down of earnings rather than going out and borrowing money. That may be one of the reasons why their dividend has remained constant despite increased profits.

You will see the full particulars of Polymer's operations on page 116 of the report under paragraph 157, and we shall be coming to it. However, I think this would be the short answer to your immediate inquiry.

Mr. Stokes, do you have anything to add?

Mr. A. B. STOKES (*Audit Director, Department of the Auditor General*): I might contribute the comment that the dividend rate is increasing for the year ended December 31, 1963. The return for the year ending December 31, 1964, if I understand it correctly, will go up \$1 million.

Mr. WINCH: In view of the fact that we will be reaching the paragraph mentioned by Mr. Henderson, paragraph 157, would it be possible at that time to have available information in respect of earnings where it applies to what I think is an arrangement with Mexico whereby Polymer supplies the know-how and additional assistance. If I could, I would like to have information with regard to the basis of that when we reach this item. In other words, I would like to know what the return is for Canada's know-how in Mexico.

Mr. HENDERSON: Would it be satisfactory if we were to convey the question to the officials at Polymer and perhaps they could make available a statement for the committee?

Mr. FANE: Mr. Chairman, may I ask Mr. Henderson whether I am right in inferring from paragraph 40, return on investments, that these children of the government made that much money last year as shown in the right hand column.

Mr. HENDERSON: The principal source of this money does not come so much from the earnings of these corporations—although it does in the case of Polymer—as it does from interest collected by the government on loans it has made to the various companies. The companies themselves may not necessarily be in a profitmaking business, as for instance the Farm Credit Corporation, but substantial sums of money are advanced to these companies to enable them to operate and this is the interest earned by the government on its advances. Polymer would be an exception; that is a straight dividend. There is also a straight dividend in the case of the Bank of Canada. The \$96,680,000 represents the annual profits earned by the bank and surrendered to the receiver general.

Mr. WINCH: Would it be possible to have a breakdown of the corporations shown in paragraph 40 to show what is interest and what is profit?

Mr. HENDERSON: That would be a relatively simple computation.

The CHAIRMAN: Could we go into that when we come to the particular crown corporation itself?

Mr. HENDERSON: There is a separate paragraph in this report in respect of each of these crown corporations, except, of course, the Bank of Canada and Central Mortgage and Housing Corporation which I do not audit them.

Mr. WINCH: Might we have a chart showing this?

Mr. HENDERSON: Fine.

Mr. FANE: The \$23,420,000 from the Canadian National Railways is just interest they have paid the Canadian government for money they had loaned to them?

Mr. HENDERSON: Yes; that would be the case in that instance.

Mr. FANE: Where does the \$60 odd million that the C.N.R. was in the red come into a deal like this?

Mr. HENDERSON: That is provided for by a special appropriation in the estimates.

Mr. FANE: I realize that.

Mr. HENDERSON: That goes into expenditure for the year; that would not be treated as any return on investment.

Mr. FANE: No, definitely; but I was just wondering how, their being so much in the red, there is \$3,824,000.

Mr. HENDERSON: That represents the interest which the government would charge them and which they would have paid, and the government pays the \$60 million deficit. So, on a net basis you might say the government is out \$57 million.

Mr. FANE: Thank you very much.

Mr. McMILLAN: Under Central Mortgage and Housing Corporation you showed \$79,925,000 interest. Is there a table which shows the flow of capital, the amount of capital returned, and the amount of capital put out each year?

Mr. HENDERSON: Do you mean of the loans made?

Mr. McMILLAN: Yes; is there such a table? There must be some losses taken every year.

Mr. HENDERSON: Yes. We are not the auditors for the Central Mortgage and Housing Corporation, so I do not report that in any detail in this report at all.

Mr. WINCH: Neither are you the auditor of the C.N.R.

Mr. HENDERSON: No. We are not the auditors of the C.N.R., so I do not include the details of that. However, in respect of all of the others for which I am the auditor, you will find full particulars at the back of my report of not only money advanced by the government, but also the results of their operations in detail. In the case of the Central Mortgage and Housing Corporation, the \$79,925,000 you see there consists of \$74,337,000 of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act and \$5,588,000 which represents the profit for the corporation's financial year which, under the act, is required to be transferred to the receiver general.

Mr. WINCH: Some of that is profit?

Mr. HENDERSON: The \$5,588,000 is profit.

Mr. WINCH: They make a profit over and above the interest?

Mr. HENDERSON: Yes, sir. I cannot speak in any detail here because I am not familiar with their accounts.

The CHAIRMAN: Gentlemen, I think the witching hour is approaching. We will be followed by the defence committee in a few minutes. Next Thursday,

under the genial chairmanship of Mr. Tardif, we will carry on with this examination and, if it meets with your approval—as I think it does—when we are having witnesses here such as Dr. Davidson we will send you a note stating the paragraph with which we will be dealing.

Mr. WINCH: Would it be possible for the steering committee to bring in for the information of the members at least a provisional agenda for the next few weeks. There are members who perhaps will have to be away but who would like to be here when specific witnesses are to appear.

The CHAIRMAN: I have discussed this with Mr. Henderson, and we shall attempt to do that. Also having in mind the uncertain date of our existence here until the summer recess, we have attempted to work this out. We have also discussed the possibility of an interim report to the house.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

Public Accounts, Volumes I, II and III (1963)

Report of the Auditor General to the House of Commons—1963

THURSDAY, JUNE 25, 1964

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Berger,	Gray,	Richard,
Cameron (<i>High Park</i>),	Hales,	Rinfret,
Cameron (<i>Nanaimo-</i>	Harkness,	Rochon,
<i>Cowichan-The Islands</i>),	Lessard (<i>Saint-Henri</i>),	Rock,
Cardiff,	Loiselle,	Rondeau,
Chaplin,	Mandziuk,	Ryan,
Côté (<i>Chicoutimi</i>),	McLean (<i>Charlotte</i>),	Scott,
Crouse,	McMillan,	Smith,
Drouin,	McNulty,	Southam,
Dubé,	Muir (<i>Lisgar</i>),	Stefanson,
Fane,	Nowlan,	Tucker,
Forbes,	O'Keefe,	Valade,
Francis,	Pigeon,	Wahn,
Frenette,	Pilon,	Whelan,
Gendron,	Regan,	Winch—50.
Grafftey,		

M. Slack,
Clerk of the Committee.

*Replaced by Mr. Beaulé on June 23.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, June 23, 1964.

Ordered,—That the name of Mr. Grégoire be substituted for that of Mr. Beaulé on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, June 25, 1964.

(10)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Vice-Chairman, Mr. Paul Tardif, presided.

Members present: Messrs. Cameron (*High Park*), Fane, Forbes, Francis, Grafftey, Gray, Hales, Harkness, McMillan, O'Keefe, Pilon, Southam, Stefanson, Tardif, Tucker, Winch (16).

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Laroche, Crowley, Chapman, Millar, Hogan, Stokes, Douglas and Smith of the Auditor General's office.

The Auditor General supplied answers to questions by Mr. Winch at sitting of June 23 and was further questioned thereon. (*See Evidence*).

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1963.

Mr. Henderson reviewed paragraphs 42 to 48 inclusive and was further questioned thereon, assisted by his officials.

On paragraph 47, *Sale of terminal grain elevator*, the Committee agreed to hear witnesses from the Department of Agriculture.

The questioning of Mr. Henderson still continuing, the Vice-Chairman announced that Dr. G. F. Davidson, Secretary of the Treasury Board, would appear at the next sitting on Tuesday, June 30.

At 10.55 a.m., the Committee adjourned until 9.30 a.m., Tuesday, June 30, 1964.

M. Slack,

Clerk of the Committee.

EVIDENCE

THURSDAY, June 25, 1964.

The VICE-CHAIRMAN: Gentlemen, we have a quorum. So that we can produce a lot of work to surprise the regular Chairman, we shall start right away. For the first time this morning they have supplied the Chairman with a gavel, but as a gavel is not necessary in this committee, I will put it aside. I know we probably will do a great deal of work so that we can finish up in time to have the long week end promised by the Prime Minister.

Mr. Henderson has several statements to make in connection with some inquiries made at the last meeting.

Mr. A. M. HENDERSON (*Auditor General*): The first statement, Mr. Chairman, is in reply to a question by Mr. Winch at the last meeting concerning the operations of Polymer Corporation in Mexico. We have been in touch with the officials of Polymer and they have asked me to advise the committee that early in 1960, Polymer Corporation Limited entered into an agreement with Petroleos Mexicanos (Pemex) for the sale of technical "know-how" for the construction and operation of a general purpose synthetic rubber plant in Mexico. Under the terms of this agreement, Pemex undertook to pay about one-third of the agreed-to price for this "know-how" during the early stages of design work and to pay the balance over the first five years of operation of the plant. The initial payments were completed in 1961. The full development of the project was delayed but is now proceeding and Polymer anticipates further payments commencing early in 1966.

This arrangement is in line with Polymer's policy of seeking to strengthen its position in international markets by making certain elements of its "know-how" available to groups in other countries, always providing such arrangements are economically sound and accrue financially and otherwise to the benefit of the Canadian company.

Mr. WINCH: Mr. Chairman, I presume the reason there is no more detailed information possibly might be that they do not want their competitors to know the basis of their operations or agreements.

Mr. HENDERSON: They would not wish to disclose the full details of their agreements publicly if it could be avoided for the reason they are engaged in very intensive international competition not only in Mexico but also in the European countries.

Mr. WINCH: I think I understand the situation. Is the Auditor General satisfied from his examination that the last sentence is correct; that is, that the arrangements are economically sound and accrue financially and otherwise to the benefit of the Canadian company?

Mr. HENDERSON: I can report to you that on the basis of the operations to date that has been the case.

Mr. WINCH: Thank you.

Mr. HENDERSON: At the last meeting a further question arose having to do with the table covering the return on investments in paragraph 40, page 15, where you see the listing of revenue from the various investments in 1962-63, along with the comparable figures for the previous two fiscal years. The committee asked whether these figures could be broken down as between interest

earned by the government on advances made to these crown corporations, and other instrumentalities, as distinct from dividends or profits. I have here a schedule indicating the breakdown over the three years which you might wish to place on the record.

The VICE-CHAIRMAN: Is it agreeable that this be placed on the record and printed in our Minutes of Proceedings and Evidence?

Agreed.

The VICE-CHAIRMAN: This schedule is as follows:

RETURN ON INVESTMENTS—1962-63

	Interest			Dividends and/or profits						Totals		
	1960-61	1961-62	\$	1962-63	1960-61	1961-62	\$	1962-63	1960-61	1961-62	1962-63	\$
Bank of Canada.....	—	—	—	—	90,175,000	107,693,000	96,680,000	90,175,000	107,693,000	96,680,000	96,680,000	96,680,000
Central Mortgage and Housing Corporation.....	54,344,000	66,022,000		74,337,000	5,232,000	5,732,000	5,588,000	59,576,000	71,754,000	79,925,000	79,925,000	79,925,000
Exchange Fund Account.....	—	—	—	—	32,536,000	32,606,000	35,227,000	32,536,000	32,606,000	35,227,000	35,227,000	35,227,000
Loans to National Governments...	30,280,000	29,485,000		28,145,000	—	—	—	30,280,000	29,485,000	28,145,000	28,145,000	28,145,000
Deposits with chartered banks.....	6,645,000	6,394,000		14,395,000	—	—	—	6,645,000	6,394,000	14,395,000	14,395,000	14,395,000
Securities Investment Account.....	—	—	—	—	5,063,000	15,068,000	12,351,000	5,063,000	15,068,000	12,351,000	12,351,000	12,351,000
Farm Credit Corporation.....	4,127,000	5,962,000		8,482,000	—	—	—	4,127,000	5,962,000	8,482,000	8,482,000	8,482,000
Veterans' Land Act loans.....	5,212,000	5,895,000		6,549,000	—	—	—	5,212,000	5,895,000	6,549,000	6,549,000	6,549,000
Northern Ontario Pipe Line Crown Corporation.....	4,299,000	4,310,000		4,087,000	—	—	—	4,299,000	4,310,000	4,087,000	4,087,000	4,087,000
Canadian National Railways.....	4,982,000	1,452,000		3,824,000	—	—	—	4,982,000	1,452,000	3,824,000	3,824,000	3,824,000
National Harbours Board.....	3,884,000	3,865,000		3,555,000	—	78,000	76,000	3,884,000	3,943,000	3,631,000	3,631,000	3,631,000
Eldorado Mining and Refining Limited.....	—	—	—	—	4,935,000	5,000,000	3,000,000	4,935,000	5,000,000	3,000,000	3,000,000	3,000,000
Polymer Corporation Limited.....	—	—	—	—	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
The St. Lawrence Seaway Authority	13,149,000	—	—	—	—	—	—	13,149,000	—	—	—	—
Other loans and investments.....	10,451,000	11,198,000		10,062,000	5,455,000	3,742,000	2,503,000	15,906,000	14,940,000	12,565,000	12,565,000	12,565,000
	\$137,373,000	\$134,583,000		\$153,436,000	\$146,396,000	\$172,919,000	\$153,425,000	\$283,769,000	\$307,502,000	\$311,861,000	\$311,861,000	\$311,861,000

Mr. WINCH: May I ask a question arising from this? Can the Auditor General give us some further explanation in respect of the Northern Ontario Pipe Line Crown Corporation? I notice there is nothing under dividends or profits, and only interest. Is that because the government of Canada made a loan which, I understand, is being repaid and the company now is no longer responsible to the House of Commons once they either have been bought out or all loans are paid?

Mr. HENDERSON: The Northern Ontario Pipe Line Crown Corporation is the subject of a separate note in this report. Do you have the particulars, Mr. Smith?

Mr. D. A. SMITH (*Audit Director, Office of the Auditor General*): No, I do not have the particulars.

Mr. WINCH: My purpose in asking is that if my memory is correct, in the original act, does it not say an investment or loan? If it was an investment, why is there nothing under dividends or profits?

Mr. HENDERSON: Under paragraph 154 on page 114, there is set out the situation with respect to the Northern Ontario Pipe Line Crown Corporation. It will be seen from this paragraph how the corporation constructed the northern Ontario section of the all-Canadian gas pipe line and leased it to Trans-Canada Pipe Lines Limited with an option to purchase. Then, if you will turn to the last note of this paragraph on page 115, you will see that as of December 31, 1962, Trans-Canada Pipe Lines Limited indicated its intent to exercise the option to purchase the northern Ontario section in 1963. In point of fact, the option was exercised and the purchase completed on May 29, 1963, following which the corporation discharged its liability, that is, the principal amount which is due to the government of Canada for outstanding loans and accrued interest thereon. However, I would like an opportunity to check, this, the interest involved in this case, which is shown probably under other loans and investments. That is the amount applicable to the year.

Mr. WINCH: With permission of the committee I would like to discuss this matter at a later time when we come to this section, because I would like to have a clear explanation for Canada putting up money when it looks risky, and being out of it when there is no risk.

Mr. HENDERSON: There is revenue derived from interest on the Northern Ontario Pipe Line Crown Corporation of \$4,087,000, as shown on this table.

Mr. WINCH: But there is \$4,087,000 interest and not profit.

Mr. HENDERSON: That would be interest on the moneys advanced.

Mr. WINCH: I would like to come back to it later.

Mr. HENDERSON: That might be done when we reach paragraph 154.

Mr. WINCH: Could you give us any comment on the national harbours board? My reading of their report shows a fairly large net profit, but I note they only turned over in 1961-1962 \$78,000 and \$76,000, and that it was all for interest. Does the auditor when he examines reports like that look at the authority to make a decision on the payment of interest and additional surplus, and whether or not under the terms of the National Harbours Board Act it should be turned over to a greater extent to the federal treasury? Is that part of your examination?

Mr. HENDERSON: We would make such a comment to management if we felt it should be brought to their attention. Unless the reasons advanced were satisfactory, I would refer to the matter in my comments to the house.

Mr. WINCH: I have one further question.

Mr. HENDERSON: This again, I might add, is the subject of a detailed paragraph, namely, 152 on page 110 of the report, and we shall be coming to it.

Mr. WINCH: Perhaps we might hold the two matters until then. It is my understanding that the board operates individually and makes a profit. I am interested in those corporations which operate independently as harbour boards and which do very well. It is applied over the whole system, although they do operate individually.

Mr. HENDERSON: That is right. This could make quite an interesting discussion when we come to paragraph 152.

Mr. WINCH: You will keep that particular aspect of it in mind?

Mr. HENDERSON: Yes, sir.

Mr. SOUTHAM: Paragraph 40 was called at the last meeting, but I should like to ask a question on it at this time. Dealing with the total revenues of return on investments, the last item says "Other loans and investments". Could the Auditor General tell us what these other investments are?

Mr. WINCH: This is a most interesting question in view of the fact that interest on other loans and investments is shown as \$12,565,000. Especially is this a most interesting question in view of the fact that interest on other loans and investments shows \$12,565,000. They must be quite substantial loans.

The VICE-CHAIRMAN: They are either that, or rather numerous.

Mr. WINCH: They must be, in order to carry interest at \$12,565,000.

Mr. HENDERSON: We will be happy to furnish the details. Unfortunately we do not have them with us this morning; but they are readily ascertainable. I do not think we have them at hand. They would be contained in the public accounts of Canada, volume II. It is just a question of referring to them, but we can furnish the details.

The VICE-CHAIRMAN: Is that satisfactory or would you rather Mr. Henderson furnish a schedule at the next meeting, if he can do so at that time?

Mr. WINCH: The members of the house are very busy, and there are very many committees.

Mr. HENDERSON: We can do that. We shall furnish it as supplementary to the one which we put in today, breaking down the interest as compared to dividends.

The VICE-CHAIRMAN: I think that answers the question. Now, paragraph 42:

42. *Net postal revenue.* The following table shows the gross postal revenue, less disbursements therefrom, and the resulting net postal revenue for the past three fiscal years:

	1960-61	1961-62	1962-63
Gross postal revenue	\$ 201,952,000	\$ 213,518,000	\$ 222,300,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices	24,050,000	25,171,000	25,239,000
Other disbursements	4,308,000	4,668,000	4,289,000
	28,358,000	29,839,000	29,528,000
Net postal revenue	\$ 173,594,000	\$ 183,679,000	\$ 192,772,000

Mr. HENDERSON: Paragraph 42 at the bottom of page 15 deals with net postal revenue. It shows the total gross postal income taken into revenue over the past fiscal year. We shall be dealing with this further when we come to

paragraph 165 where we summarize post office transactions for the year. This is a reference under the revenue section, and perhaps you might wish to defer your questions until we reach paragraph 165.

The VICE-CHAIRMAN: Is that the wish of the committee? Shall we defer our questions until we reach paragraph 165?

Agreed.

Now, paragraph 43:

43. *Other non-tax revenues.* An analysis of the amounts shown in the table in paragraph 35 for "other non-tax revenues" for 1962-63 with comparable figures for the two previous fiscal years is given in the following table:

	1960-61	1961-62	1962-63
Privileges, licences and permits ...\$	27,206,000	\$ 23,271,000	\$ 25,008,000
Proceeds from sales	23,981,000	25,902,000	26,531,000
Services and service fees	35,672,000	42,453,000	46,186,000
Refunds of previous years' expenditure	40,544,000	18,163,000	22,392,000
Miscellaneous	17,137,000	17,489,000	16,982,000
	<u>\$ 144,540,000</u>	<u>\$ 127,278,000</u>	<u>\$ 137,099,000</u>

Mr. HENDERSON: This gives an analysis of the miscellaneous revenues figure as shown previously under paragraph 35 on page 13 where we show "privileges, licences, and permits". You will note that in 1962-1963 the total non-tax revenue was \$137,099,000. In this paragraph 43 we break it down.

Mr. WINCH: Under "privileges, licences, and permits" in 1962-1963 you have \$25,008,000.

I would like to ask the Auditor General if, at a future meeting, he can produce for 1962-63 under "privileges, licences and permits" the amount received from any oil company or corporation for exploration on the continental shelf of the coast of British Columbia, and under what authority was a licence, fee or permit charged to the corporations involved. He might know what we have done in view of the fact that British Columbia denies the right of Canada to collect on any permit or licence for exploration on the continental shelf. Would it be part of your investigation to find out under what authority this is collected?

Mr. HENDERSON: That would be within our orbit of authority.

Mr. CAMERON (*High Park*): I think that authority under which a government collects would not be under your jurisdiction.

Mr. HENDERSON: We should be able to tell you the amount.

Mr. WINCH: But not under what authority?

Mr. HENDERSON: We can cite the authority that has been used to collect it, but I could not be expected to express an opinion on its validity.

Mr. WINCH: You can cite the authority?

Mr. HENDERSON: Yes, that would be common information.

The VICE-CHAIRMAN: If you have not the authority, the committee could find out from another department how this authority is exercised.

Mr. WINCH: I know that something was collected on the continental shelf of British Columbia, and in view of the fact it has just been announced in the

past two or three weeks that British Columbia is going to take this matter to the supreme court, I would like to know under what authority they had been collecting.

Mr. HENDERSON: We can only show the facts as set forth in the books, which presumably would meet your request. Mr. Smith, have you taken note of that?

Mr. McMILLAN: Mr. Chairman, I wonder if I could ask where the income from leases and so forth under the Department of Transport would be shown?

Mr. HENDERSON: Mr. Smith, can you answer that?

Mr. SMITH: In terms of the public accounts, this detail would be shown in the section of the public accounts relating to the Department of Transport, and in particular to the section relating to revenue.

Mr. LONG: It would be classified as privileges, licences and permits.

Mr. McMILLAN: It would be included in the top figure here.

Mr. CAMERON (*High Park*): What does the item "proceeds from sales" mean? Sales of what?

Mr. HENDERSON: That has been a standard categorization, sir. This is a good question. If you want us to amplify, we could readily do this. Are we in a position to explain what those sales would be, Mr. Long?

Mr. LONG: This should be all sales. There is a fairly detailed directive as to how to classify all types of revenue, and we could probably produce that.

Mr. CAMERON (*High Park*): I suppose that crown agencies such as the Crown Assets Disposal Corporation would not be in there. It just concerns departments that have something to sell.

Mr. LONG: Mr. Smith where are the crown assets revenues shown?

Mr. SMITH: In the revenue of that corporation.

Mr. LONG: The money that comes to Canada?

Mr. HARKNESS: In this case Crown Assets acts as a selling agency, would it not?

Mr. HENDERSON: It turns over the entire proceeds of collections arising from the sale of government property to the government, keeping back sufficient moneys to cover its expenses.

Mr. CAMERON (*High Park*): You must assemble it from the information you get?

Mr. HENDERSON: We can readily get it. Would it be satisfactory if we amplified that with the figures at the next meeting?

Mr. CAMERON (*High Park*): Yes.

Mr. McMILLAN: Would wharfage charges be included under that item?

Mr. LONG: I would think so because it would not fit under any of the other items.

The VICE-CHAIRMAN: Is that satisfactory, Mr. Cameron?

Mr. CAMERON (*High Park*): Yes, Mr. Chairman.

The VICE-CHAIRMAN: Any further questions on that paragraph?

Mr. SOUTHAM: I notice under paragraph 43, "other non-tax revenues", the last item, "miscellaneous", has a very substantial amount for 1962-63. Would the Auditor General have a resume of what comes under this section?

The VICE-CHAIRMAN: That question has already been asked and the Auditor General has promised to bring a breakdown.

Mr. HENDERSON: We will break down that figure.

The VICE-CHAIRMAN: Are there any further questions?

We are now on paragraphs 44 and 45, comments on expenditure and revenue transactions.

44. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and also to any other matter that he "considers should be brought to the notice of the House of Commons".

Pursuant to this direction, I consider that the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review should be brought to the attention of the house in this report.

45. *Governor General's special warrants.* At the dissolution of parliament on February 6, 1963 interim supply had been granted generally to the extent of ten-twelfths of the amount of the revised main estimates 1962-63. In order to carry on the public business until such time as the new parliament assembled on May 16, 1963, recourse was had to Governor General's special warrants, issued under the authority of section 28 of the Financial Administration Act, as a means of providing the necessary supply. The special warrants relating to the fiscal year under review were as follows:

- (a) one for \$239,143,321, on February 8, 1963, which provided funds on the basis of one-twelfth of the amount provided in the revised main estimates and supplementary estimates (A) and (B) for 1962-63; and
- (b) one for \$402,163,293, on March 4, 1963, which provided funds estimated as sufficient to meet expenditures urgently required for the public good during the balance of the fiscal year.

In making their estimates of the amounts they required under the final special warrant for the year, departments were instructed by the treasury board staff that the maximum that could be included for each vote heading should not in any case exceed the total of the amounts included in the tabled estimates (i.e., revised main estimates and supplementary estimates (A) and (B) for 1962-63) plus amounts included in supplementary estimates (C) approved by the treasury board (though not laid before the House of Commons) and departments were instructed to make an internal review in order to estimate the amount that would lapse in each vote and take such amount into consideration. Departments were also instructed not to include provision for estimates items that:

- (a) were essentially legislative, or
- (b) involved accounting transactions within the consolidated revenue fund that could hardly be said to involve "payments" which were urgently required.

The amounts authorized by these special warrants were subsequently included in the amounts authorized by the Special Appropriation Act, 1963 which was passed by the House of Commons on July 15, 1963.

The issuance of Governor General's special warrants is provided for by section 28 of the Financial Administration Act, subsection (1) of which reads as follows:

Where a payment is urgently required for the public good when parliament is not in session and there is no other appropriation pursuant to which the payment may be made, the governor in council, upon the report of the minister that there is no appropriation for the payment and the report of the appropriate minister

that the payment is urgently required for the public good, may by order direct the preparation of a special warrant to be signed by the Governor General authorizing the payment to be made out of the consolidated revenue fund.

It will be noted that the above subsection simply authorizes a "payment" which is "urgently required for the public good" when there is no other appropriation pursuant to which the payment may be made. The subsection does not provide for any control over the entering into of commitments during a period for which parliament has made no provision nor does it appear to contemplate provision of a continuing spending authority to the executive for the financing of general government services during such a period. However, this appears to have been assumed by the treasury board staff in carrying out the procedure followed in preparing the special warrants for February and March 1963.

A strict interpretation of subsection (1) of section 28 would undoubtedly call for the issuance of a large number of warrants with a consequent increase in administrative handling. With clearer statutory authority we would not think the procedure whereby a single warrant is prepared in advance to cover the requirements of each month is unreasonable provided its contents are limited to providing for payments essential for ensuring the maintenance of basic governmental services. Had this approach been fully employed in the preparation of the special warrants under review, a number of the items included therein would have been omitted because they did not meet the test of being "urgently required for the public good". Examples are as follows:

1. Both special warrants included an item "to supplement other votes, subject to the approval of the treasury board, for the payment of salaries, wages and other payroll items". Obviously payment of the amounts was not urgently required when the special warrants were issued, and the governor in council in effect delegated to the treasury board his authority under section 28 of the act although there is no provision for such delegation.
2. The special warrant dated February 8, 1963 included authority for the payment of an amount of \$717,959 into the national capital fund. The balance at the credit of this fund at March 31, 1963 was \$6,776,000, and it therefore cannot be said that the item of \$717,959 authorized on February 8, 1963 was "urgently required for the public good."
3. The special warrant dated February 8, 1963 also included authority for the payment of an amount of \$136,250 to the receiver general as interest for the month of March on loans made to the National Capital Commission for the purpose of acquiring property in the national capital region. Comment with respect to this procedure appears in paragraph 59 of this Report. As such a payment is in effect an internal bookkeeping entry, it should not have been provided for by the special warrant.
4. Included in the special warrant dated February 8, 1963 was an amount of \$750,000 for loans to The St. Lawrence Seaway Authority. Inasmuch as parliament had, by interim supply, authorized loans totalling \$7.5 million and the authority borrowed only \$1 million in February, 1963 and \$6 million in March 1963 of which \$4.7 million was immediately invested in short term investments, it is obvious that the item of \$750,000 did not meet the requirement of being "urgently required for the public good".

5. Included in the two special warrants were amounts totalling \$114,950 to cover the administrative expenses of the National Gallery of Canada, without taking into consideration \$49,926 available for this purpose in the gallery's special operating account.
6. In May 1962 the Department of Northern Affairs and National Resources was given executive authority to inform a chartered bank that provision for a grant of \$50,000 to the Dawson City Festival Foundation would be included in estimates to be presented to parliament in the autumn. On the strength of this, the bank advanced \$50,000 directly to the producers of a musical comedy which was to be the "centre-piece" of the Dawson City Gold Rush festival. The payment of a grant of \$50,000 to the foundation, in order that the bank might be recouped, was authorized by the special warrant issued on March 4, 1963. Since the prior concurrence of parliament is requisite to the payment of a grant-in-aid to a non-governmental organization, it is the audit office view that the grant to the foundation should not have been made under the special warrant.
7. A cheque for \$6,000 to the corporation of the town of Sioux Lookout in respect of utility services provided the Sioux Lookout Indian hospital was issued on April 30, 1963 and held until June 5, by which time an agreement with the town had been executed. The issuing of the cheque as a charge to 1962-63 expenditure was, in our opinion, irregular because it could hardly qualify as "urgently required for the public good" when the cheque was held by the department and, indeed, it would have been irregular in the circumstances even if parliamentary appropriations had been available.

We would recommend that a detailed study be made of the financing problems which result when parliament has been unable to make provision for the carrying on of governmental services between sessions. An amendment to the Financial Administration Act might then be considered which would have the effect of assuring appropriate parliamentary control in this important area.

Mr. HENDERSON: Here we reach the comments I have had to make in respect of the expenditure and revenue transactions which are made, as stated in paragraph 44, pursuant to section 70 of the Financial Administration Act, whereby I am required to call attention to specific classes of transactions noted during my examination and also to any other matters which I consider should be brought to the notice of the House of Commons. The first paragraph, paragraph 45, deals with Governor General's special warrants.

Mr. WINCH: In an endeavour to save time, before the Auditor General makes a statement on this, may I ask, in view of the last paragraph on page 19, whether he would refer that to the last paragraph on page 17 where he says:

The subsection does not provide for any control over the entering into of commitments during a period for which parliament has made no provision—

I take it this means any commitments. This being such an important matter, I thought I might make reference to it at this time, and because of this the Auditor General might go into a little more detail in his explanation than otherwise if I had not spoken before he made his presentation.

Mr. HENDERSON: Perhaps I had better outline this briefly first.

You will have noticed how, under section 70 of the Financial Administration Act, the Auditor General is required to call attention to every case in which he observed that "a special warrant authorized the payment of any

money", which perhaps will serve to explain the attention I have given to the manner in which special warrants, issued under the authority of section 28 of the Financial Administration Act, were used as a means of providing the necessary supply. We only, of course, deal with two of the warrants here, that is the ones in February and March, 1963, up to the end of the fiscal year—not the two which were issued in April and May, 1963, which come into the 1963-64 fiscal year.

On page 17 I describe how the treasury board staff assembled departmental needs and in the middle of the page I quote the pertinent section of the Financial Administration Act. You will note that this section simply authorizes a payment which "is urgently required for the public good" when there is no appropriation pursuant to which the payment may be made. It does not provide for any control over the entering into of commitments during a period for which parliament has made no provision—

Mr. WINCH: That is a new commitment?

Mr. HENDERSON: Yes,—nor does it contemplate provision of a continuing spending authority to the executive for the financing of general government services during such a period. However, this appears to have been assumed by the executive, and will probably continue to be assumed by the executive. Your comments on this will be very helpful.

Then, on page 18 I list seven instances of items included in these warrants which we do not think met the test of "being urgently required for the public good".

A discussion of this subject by the members of the committee would be most helpful both to the audit office and, I think, to the members of the treasury board, and we are hoping that when Dr. Davidson is present next Tuesday we can discuss it further.

Now, the seven cases listed are set out on page 18. From them you can see the test of urgency we have applied in respect of whether or not they should have been included in the warrants.

The VICE-CHAIRMAN: Are there any questions on Mr. Henderson's comments?

Mr. WINCH: Just one, Mr. Chairman. As Mr. Henderson says, perhaps we might go into more detail when Dr. Davidson is before us. However, let us take No. 5 as an illustration where there are two special warrants in the amounts of \$114,950. Is it good auditing practice that if there is \$50,000 available from a special operating account there should not be, therefore, any need for a special warrant in that amount? Is that a correct understanding of your position?

Mr. HENDERSON: Well, would you say that \$114,950 should have been asked for in these warrants as being urgently required for the public good when already there was \$50,000 sitting there in the special operating account for that? The only authority is contained in section 28 of the act under paragraph 17 which states:

Where a payment is urgently required for the public good when parliament is not in session and there is no other appropriation pursuant to which payment may be made,...

Now, \$50,000 was sitting there approved for that need. Therefore, the test of urgency might have been applied just to the difference.

Mr. WINCH: Is it the opinion of your department which made this audit that there was the authority to use this \$49,926 for the same purpose for which a special warrant was taken?

Mr. HENDERSON: Yes, indeed. Otherwise I would not have inserted the comment I did under paragraph 5. Admittedly this is a difficult section to interpret. Perhaps, you know better than I the history of section 28. I think before the Financial Administration Act was amended it said that the only money which could be sought under the Governor General's special warrants procedure related to urgent repairs to buildings, and was even more restrictive than the present wording. I think it was enlarged in 1951 when the act was amended, but the only basis we have to go on is the wording of section 28 which I quote on the middle of page 17.

Mr. GRAFFTEY: As a matter of interest, is there a sort of general reply given to you by the various officials when they ask for moneys which do not fall under the conditions you specify? Take the first item; unless this action was taken I understand no salaries would have been paid.

Mr. HENDERSON: I think they would—and I think you would—interpret continuance of salaries as being urgently required for the public good. My officers and I would hope so. However, in respect of some of these other cases, the sort of questions I have raised arise.

I would suggest that your question be addressed to Dr. Davidson, the secretary of the treasury board, when he is with us next Tuesday. Dr. Davidson and his associates in the treasury board have themselves encountered a number of problems in determining what should go into the special warrants.

As I indicate on page 17, their interpretation largely has been provision of a continuing spending authority for the financing of general government services; in other words, carrying on business as usual. From our point of view, section 28 seems to be very restrictive, because it says:

—where a payment is urgently required for the public good when parliament is not in session, and there is no other appropriation pursuant to which the payment may be made.

The key words are "urgently required for the public good". Some of the items listed in the seven examples indicate to what extent urgency did, in fact, exist.

Mr. GRAFFTEY: In respect of the seven examples, was parliament sitting in most of these cases?

Mr. HENDERSON: No, sir. You will remember parliament was dissolved early in February, 1963.

Mr. WINCH: Am I correct that you cannot use a Governor General's warrant if parliament is sitting?

Mr. HENDERSON: That is correct; you cannot. This is the only means the executive has to obtain supply when parliament is not in session.

Mr. HALES: Would you give us a run down of the steps through which this appropriation would follow, staying with example No. 5 which Mr. Winch mentioned. The National Gallery made an appropriation or asked for \$114,950. I suppose there is a comptroller in that department, and he would be the man who would ask for this. Then, would you take it on from there through its various steps to see how this happened?

Mr. HENDERSON: On page 17 in the first paragraph I say that in making their estimate of the amount they required under the final special warrant for the year, departments were instructed by the treasury board staff that the maximum that could be included for each vote heading should not in any case exceed the total of the amounts included in the tabled estimates.

You may recall at that time the revised main estimates and supplementary estimates A and B for 1962-63 had been laid on the table plus amounts included in supplementary estimates C approved by the treasury board, but

not laid before the House of Commons, and departments were instructed to make an internal review of what they were going to need over the ensuing 30 days; in other words, see what money they had left and take such amount into consideration. Departments were also instructed not to include provision for estimates items that (a) were essentially legislative, or (b) involved accounting transactions within the consolidated revenue fund that could hardly be said to involve "payments" which were urgently required.

Mr. HALES: Who issued these instructions?

Mr. HENDERSON: The secretary of the treasury board sent these instructions around to each of the departments. They were requested to be guided by these instructions in rendering their estimates, and the minister responsible for each department then would certify what funds were needed.

Mr. HALES: Then the comptroller in the National Gallery did not follow the instructions that were issued to him?

Mr. HENDERSON: That might follow from the comment that I have made. Some of these cases well might be arguable, in fairness to that comptroller who is not here, in respect of the special problem with which he was faced; but his minister saw fit to approve this.

Mr. HALES: He made the request and the minister approved it and it went on to treasury board?

Mr. HENDERSON: Yes, and they would look it over with a very sharp eye to question anything; but presumably some of these might have been missed, or there might have been some other reason.

The VICE-CHAIRMAN: It would not go forward without having the approval of the treasury board?

Mr. HENDERSON: No. Mr. Long might add something to this.

Mr. WINCH: Could Mr. Long also tell us, although it had the approval of the minister and went to the treasury board, whether the treasury board had the information that there was nearly \$50,000 in another account for the purpose for which they were asking for this special warrant; did they know that was there?

Mr. G. R. LONG (*Acting Assistant Auditor General, Auditor General's Office*): I would think the treasury board would know this, but I believe what Mr. Hales is getting at can be explained by the fact that the treasury board is trying to keep these warrants in the same pattern as the estimates tabled in the house. They are faced with having to have these expenditures approved by the house, so they try to keep them within the framework of the estimates. In this case the gallery intended these expenditures to be made from parliamentary appropriations and not from the open account. Treasury board would be quite willing for them to carry on within the estimates so long as the expenditure required to be made was urgently required.

Mr. HALES: The comptroller in that department had no business to request this money when he was given instructions to do otherwise?

Mr. LONG: But he was also instructed that the amount asked for should not exceed the total of the estimates tabled. The whole policy here is to obtain the warrant approval in the same pattern as the estimates have been lined up.

Mr. HALES: Did he or did he not follow instructions?

Mr. LONG: I think he followed instructions.

Mr. HALES: If he followed instructions, No. 5 should not be in here.

Mr. LONG: Except that he perhaps should have been told not to include the amount if there was another place from which payment could be made; but

he was not told that. If there is any other source from which a particular payment can be made, it should not be included in the warrant, notwithstanding the fact that it was in the original estimate.

Mr. HENDERSON: We are not blaming the comptroller. We are just showing examples of what has happened.

The VICE-CHAIRMAN: I am wondering whether this was an extra expenditure and the original \$49,926 was already committed.

Mr. WINCH: We have been told already that this money was available.

Mr. HENDERSON: Yes, sir.

Mr. WINCH: And was in an expense account.

Mr. HENDERSON: In some of the other cases shown here, it seemed to us they should have been omitted because they would not meet the test of being urgently required for the public good. This is the essence of the whole question for parliamentary control of spending. Do you feel they should hew to the original wording of section 28 having to do with every item being urgently required for the public good, or are you content to accept the interpretation I loosely described earlier as "business as usual" or the wording I have used on page 17, "for the financing of general government services during such a period"; in other words, in the usual way?

Mr. HALES: I think that parliament's intention is certainly not to carry on business as usual. When parliament has adjourned, we are under Governor General's warrants, and it is a different situation. When instructions are issued and the moneys are available, and they can be transferred, I do not think that the comptroller had any business to ask roughly for \$115,000. He should only have asked roughly for \$65,000.

The VICE-CHAIRMAN: Could it be that it was for the purchase of something which cost more than the \$49,000 which was available? Could we find that out? It might be for a purchase which could not be postponed. It could be that.

Mr. CAMERON (*High Park*): What is the special operating account?

Mr. HENDERSON: I shall ask Mr. Douglas to answer.

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): Perhaps I might read from section 8, subsections (2) and (3) of the National Gallery's Act as follows:

8. (2) There shall be a special account in the consolidated revenue fund called the National Gallery special operating account to which shall be credited all money received by the board by way of donation, bequest, revenue or otherwise.

(3) Any expenditures for the purposes of this act may be paid out of the National Gallery special operating account or out of money appropriated by parliament for such purposes. 1951 (2nd sess.), c.16, s.8.

The VICE-CHAIRMAN: Thank you very much.

Mr. WINCH: I think that answers everything. The power was there, and the money was there, but it was not used.

The VICE-CHAIRMAN: Are there any other questions on this paragraph?

Mr. GRAFFTEY: I think we should have a chance to bring this subject up again in more detail. It often is the case that the national gallery may have an opportunity to make a certain purchase at a time when it has to act on it immediately. Very often the national gallery has missed out on good international purchases because they have been hamstrung. Maybe it is a good excuse or it is not. I know that some years ago this was the case.

Mr. HENDERSON: If you will look at item 7, which dealt with a cheque for \$6,000 to the corporation of the town of Sault Lookout, you will see the cheque was issued on April 30 but it was held by the department until June 5.

Mr. SOUTHAM: I would agree with the question raised by Mr. Hales in respect of the national gallery authorities and the power they have under the act which was just cited. If they had this authority, then this example in number 5 perhaps should not have been inserted. Possibly you should not have raised the question at all. My point is that if you raised the question, then we as a committee should examine it to see if there is or is not a problem here. If there is, then it should be rectified.

Mr. HENDERSON: We raised it because we knew that the \$50,000 in question was available.

The VICE-CHAIRMAN: As I have said before, are you sure there was sufficient money with which to do what they wanted to do, to cover the request for \$114,000?

Mr. HENDERSON: No doubt they would like to have had more money to do more things. But I would return to the wording of section 28, "urgently required for the public good".

Mr. HALES: Would you mind repeating it, please?

Mr. HENDERSON: I am reading subsection (1) of section 28 of the Financial Administration Act as follows:

Where a payment is urgently required for the public good when Parliament is not in session and there is no other appropriation pursuant to which the payment may be made, the Governor in Council, upon the report of the Minister that there is no appropriation for payment and the report of the appropriate Minister that the payment is urgently required for the public good, may by order direct the preparation of a special warrant to be signed by the Governor General authorizing the payment to be made out of the Consolidated Revenue Fund.

Mr. HALES: I think it is parliament's intention that the act should be followed to the letter, and I think it is the duty of the public accounts committee to see that it is followed to the letter.

Mr. WINCH: I have no way of questioning the need for the \$114,950. The point I am trying to make is that the national gallery should not have been asking for \$114,950 by special warrant, but rather asking for \$114,950 less the amount of \$49,926, which they had available.

The VICE-CHAIRMAN: If Mr. Graffey is right in his conception about the purchase, if it was a purchase, for \$114,950, perhaps you might like to find out about it and inform the committee.

Mr. WINCH: Have they still got that \$49,000 in the special reserve? I would still like to find that out.

Mr. HENDERSON: The comment here is based on the special warrants for February and March. In my 1964 report I would expect that we may have similar cases arising with respect to the warrants for the months of April and May.

Mr. WINCH: I think this is something that the committee should watch. I could be wrong, but if my memory is correct, in the 97 years of Canadian parliaments, moneys spent by Governor General's warrants have never been called into question by succeeding sittings of the legislature or of the next parliament. We have to look into it as a succeeding parliament, because it may run into millions. There is of course always the O.K. of authorization. It may lead over the years to a tendency not to make a particular recommendation to the authority and the power of parliament, because they know they will get the money anyway. I think it is a very important point and one in which members of the committee should be interested.

The VICE-CHAIRMAN: Would it apply in view of the fact that these warrants have to be passed by parliament anyhow?

Mr. WINCH: After 97 years, you do it automatically.

The VICE-CHAIRMAN: It could be questioned at any time. What is the pleasure of the committee about it?

Mr. FORBES: Could we assume that these various departments were relying upon an estimate of their requirements, and that they could not anticipate a purchase of so much? If they did not have the money available, in view of the fact that they were getting the money under Governor General's warrant—probably they do not go to the Governor General every day—they would want to be making provision for a month or two ahead, just as we do under our votes for supply.

Mr. CAMERON (*High Park*): This special operating account would be taken into account when fixing the estimates for 1962-1963. So all they were doing would be to get the rest of it.

Mr. HENDERSON: Yes, it would appear in the estimates.

Mr. CAMERON (*High Park*): If they did not use the \$49,000 with which to pay expenses, they would have to recoup themselves in the following year.

Mr. HENDERSON: That is right.

Mr. CAMERON (*High Park*): So it is a question of a dog chasing its tail?

Mr. HENDERSON: This has been the subject of special study by the secretary of the treasury board and his associates for some time, and we have had some lengthy discussions with them. I know that Dr. Davidson will appreciate the opportunity to outline some of these problems to you when he comes here next Tuesday. That is one of the purposes for which we have asked him to come.

Mr. HALES: I think we can conclude it on the basis, that Dr. Davidson will be here next Tuesday. But I think we ought to have the comptroller from the national gallery appear along with Dr. Davidson to explain to the committee the why's and wherefores of it.

Mr. HENDERSON: It is because of the importance of this subject and as a result of my discussions with the officers of the treasury board that we came to the conclusion that the most practical solution, recognizing the payments with which they are faced, would be to make a detailed study of the financial problems which come up when Parliament is not sitting and to see if the executive might come up with a better way to cope with it. I think they would welcome it.

The VICE-CHAIRMAN: I think we should have a further opportunity to look into the business in regard to paragraph 45 which covers the Governor General's special warrants. Are there any more questions on paragraph 45? If not let us now turn to paragraph 46:

46. *Prairie Farm Emergency Fund deficit.* The deficit in the operations of this fund during the year ended March 31, 1963 was \$7,295,000, a decrease of \$40,438,000 from the deficit of \$47,733,000 incurred in the preceding fiscal year, which had been the largest since the inception of the fund in 1939.

The fund operates as a special account within the consolidated revenue fund to record transactions under the *Prairie Farm Assistance Act*, R.S., c.213. Under the act, a levy of 1% is imposed on the purchase price of grain purchased by licensees under the *Canada Grain Act* and the moneys collected, which totalled \$8,239,000 during the past year, are paid directly to the receiver general and credited to the account. Awards made in accordance with the provisions of the act are charged to the account and during the past year these totalled \$15,534,000.

Section 11 of the act, in providing for this special account, states in subsection (8) that:

If at any time the fund is insufficient to pay awards made under this act the Minister of Finance may, out of unappropriated moneys in the consolidated revenue fund, with the approval of the governor in council, make an advance to the fund of the amount required to meet the deficit.

Although crop yields had improved considerably over the previous year, it became evident once again that the fund would be insufficient to pay the awards payable under the act during 1962-63. Accordingly, on the submission of the Minister of Finance, the governor in council granted authority to the minister to make advances to the fund out of unappropriated moneys in the consolidated revenue fund sufficient to pay awards made pursuant to the act. The amount of such advances, \$7,295,000, was treated as a deficit and charged directly to expenditure. As mentioned in last year's report (paragraph 58) the Department of Finance has always followed this practice without seeking parliamentary approval.

On the other hand, the audit office has continuously taken the view, restated last year, that parliament should be requested to appropriate funds to cover the deficits, and thus given an opportunity to review the results of the fund's operations. This view was supported by the public accounts committee in its fifth report 1961 (paragraph 27) when, after referring to the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the estimates to cover the net operating loss of the agricultural stabilization board in any year, it recommended:

that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the estimates to cover any deficit that might be anticipated in the operation of the prairie farm emergency fund.

Early in 1963 the Department of Agriculture gave consideration to proposing such an amendment to the Prairie Farm Assistance Act and a letter dated March 22, 1963, addressed to the secretary of the treasury board by the deputy minister of agriculture, included the following:

. . . the purpose of the Auditor General's recommendation for parliamentary review is appreciated, and provision for this will be included when other proposals for amendments to the Act are presented for ministerial consideration.

Mr. HENDERSON: This paragraph deals with the prairie farm emergency fund deficit. This problem was discussed last December when dealing with it in my 1962 report. When we discussed my follow up report on May 26 last, I was able to point out to you that in supplementary estimates tabled on March 6, 1964, provision was in fact made for the fund's operating loss for the year ended March 31, 1964, under vote 175e. It was thus included in appropriation act No. 2, 1964, assented to on April 6, 1964. Consequently the point of our criticism has been met.

The VICE-CHAIRMAN: Is that satisfactory to the committee?

Mr. HALES: Before we leave paragraph 46, the act must have been amended to make these changes possible.

Mr. HENDERSON: No. I think it was our view and also this committee's view in its previous reports that a deficit arising under the prairie farm emergency fund should be included in the estimates and approved by parliament; in other words, there should be appropriation by parliament rather than

merely writing off the sum without such approval, which had been the practice here. And the Minister of Finance has seen fit to change this and thus give recognition to the point raised in this committee's previous recommendations.

The VICE-CHAIRMAN: Are there any further questions?

Mr. FRANCIS: Does the Auditor General conduct any spot checks within the operations of this prairie farm emergency fund in terms of the regularity of the payments, and so on?

Mr. HENDERSON: Would you care to speak to that, Mr. Stokes?

Mr. A. B. STOKES (*Audit Director, Auditor General's Office*): You read a statement to the committee on this point. It is recorded in the minutes of the third meeting.

Mr. HENDERSON: Yes, indeed. We did so. I made a statement several meetings ago on the subject, which you will find in the minutes of evidence.

The VICE-CHAIRMAN: Now, paragraph 47:

47. *Sale of terminal grain elevator.* From 1933 until August 1962 the crown-owned terminal grain elevator located at Port Arthur was leased to and operated by a company engaged in the grain trade. Order in council p.c. 1962-1/1643 of November 22, 1962 (amended by p.c. 1963-1/68 of January 21, 1963) authorized sale of the elevator to the lessee for \$750,000 and set the annual date of the current lease, August 1, 1962, as the effective date of sale. The elevator was not offered for sale by public tender but was sold by verbal agreement to the company, at the appraised value placed on the elevator by a firm of consulting engineers less the estimated cost of replacements and improvements required in the ensuing fiscal year. Due to delay in conveyance of title to the purchaser, stemming in part from survey imperfections in the Port Arthur waterfront area, payment was not made until April 22, 1963.

The Department of Justice in completing the transaction raised the question of a possible claim by the crown for interest from the effective date of sale (August 1, 1962) to the date of payment (April 22, 1963). Correspondence on the files of the Department of Agriculture disclosed that the verbal agreement had failed to provide for payment of any interest on the purchase money after the effective date of sale, or for payment of rent. Therefore no claim for interest was made, and the rent which had been paid by the purchaser for the period August 1, 1962 to January 31, 1963, in the amount of \$37,500, was refunded.

Mr. HENDERSON: Paragraph 47 concerns the sale of a terminal grain elevator. This note outlines the circumstances under which the crown owned terminal grain elevator at Port Arthur was sold privately by verbal agreement to the company leasing it, on August 1, 1962. However, the purchaser did not pay for it until April 22, 1963. Not only was he not charged any interest on the purchase money, but he was refunded the rent which he had continued to pay from August 1962 until January 31, 1963. Consequently, he had the use of the elevator free for almost nine months.

The VICE-CHAIRMAN: That was a pretty good deal.

Mr. WINCH: It is rather unusual, and I am certain the committee would like to have some more information. Did the Auditor General check to see if this was a sale made by order in council without tender, and the reason why, it being government property, it was not turned over to the Crown Assets Disposal Corporation for sale by tender?

The VICE-CHAIRMAN: I wonder if you would also like to know what the original cost of the elevator was, how old it was, and what the present valuation is.

Mr. WINCH: I would also like to know the revenue received, and its depreciated value. That question is most important. As I have said, I would like to know how it happens that government property is sold without tender by a private arrangement, under the authority of an order in council, and is not turned over to Crown Assets Disposal Corporation. I am thinking of the Kit-silano reserve which was turned over to crown assets. It was then open to public tender agreements. But might I ask Mr. Henderson if he could state whether or not government property can be sold without being turned over to Crown Assets Disposal Corporation, and if so why would it be done in such a case as this?

The VICE-CHAIRMAN: Do you mean "can" or "should"?

Mr. WINCH: I mean both.

Mr. HENDERSON: Mr. Stokes will speak to that question.

Mr. STOKES: I think it has been developed in the case of crown property that it can be sold with the approval of the governor in council without first being declared surplus to Crown Assets Disposal Corporation.

Mr. FORBES: May I ask what company it was which had this elevator under lease, and what company acquired it at the time? That might clear up the situation.

The VICE-CHAIRMAN: What might be part of the question which the committee would like to have answered.

Mr. HENDERSON: Do you have the name of the company?

Mr. STOKES: It had been leased to the McCabe Grain Company Limited of Winnipeg, but I would have to go back to determine how long the lease was for.

Mr. FORBES: It was sold in 1962 to another company, you say?

Mr. STOKES: No, it was sold to the McCabe people.

Mr. FORBES: They had the lease of it, and then they purchased it?

Mr. STOKES: That is right.

Mr. WINCH: Perhaps we might go further into this matter at a future meeting with the responsible officers before us, because there may be other questions which the committee might like to ask. For example: over the years it had been leased what were the returns to the government; why the determination to sell; what was the cost of maintenance over the years; and was there sufficient capitalization? Why was it done by a completely verbal sale and not by public tender? I think this is a matter of such importance that we might go into it.

The VICE-CHAIRMAN: And does that also include the present valuation?

Mr. WINCH: Of course. As just mentioned, they not only got away without paying interest, but they received a refund of the rent. I would like to know who was the friend of whom?

Mr. HALES: I would like to know who drew up the agreement for sale, whether it was done by a legal firm or by the governmental department of justice, and whoever drew it up, what method they used in connection in the matter of interest or rent.

Mr. WINCH: Who made the verbal agreement between the company and the officer of the crown?

The VICE-CHAIRMAN: Perhaps it might be just as well if we invited the deputy minister of the Department of Agriculture to come to answer this question. He would know the questions we were interested in by reading the transcript, and we could invite him to come and answer the questions that the committee is anxious to ask.

Mr. WINCH: If it were done by an all verbal agreement, then how could there be a transcript of it?

The VICE-CHAIRMAN: I mean a transcript of the remarks made here today. The deputy minister will receive it ahead of time, before coming as a witness to the committee.

Mr. FRANCIS: In case of a sale like this, is there any regular way in which a summary statement is made public involving the original cost, the depreciation over the years, and so on, concerning the assets? I can appreciate how this would not happen probably in the case of minor sales, but \$750,000 was the price of this one. May I ask if there is any procedure by which a regular summary of the financial picture is given in the case of public ownership and operation of such a thing?

Mr. HENDERSON: I have a note to the effect that the majority of sales, as Mr. Winch points out, are handled by Crown Assets Disposal Corporation. As a matter of fact, over the past several years they have expanded at the suggestion of this committee. I might say, beginning in 1961, they have expanded the material in their annual report where they set forth, perhaps not precisely, but the sort of thing you would like to see. They show it in summary form.

Mr. FRANCIS: I am not concerned with the Crown Assets Disposal Corporation, but I am concerned about a disposition which did not come within their purview, where there was a substantial amount of money involved. It seems to me there should be a written report and summary of the operations at the time of the disposal of the asset which is made public or made available for anyone to look at.

Mr. HENDERSON: This is one of the reasons I consider it my duty to bring cases like this to your attention, because there is no other way you would know of them.

The VICE-CHAIRMAN: Does that meet with the approval of the committee? Shall we invite the deputy minister of agriculture to answer questions in which the committee is interested?

Mr. FORBES: I think there is an item we should take into account. It says:

The elevator was not offered for sale by public tender but was sold by verbal agreement to the company, at the appraised value placed on the elevator by a firm of consulting engineers less the estimated cost of replacements and improvements required in the ensuing fiscal year.

I think we should keep it in mind that this was a 1933 elevator and that it would probably become obsolete and require a lot of improvements, and that type of thing. That is the reason the sale was made. I would doubt whether the deputy minister of agriculture would have any knowledge of the deal because I think this comes under either the board of grain commissioners or the national harbours board.

Mr. GRAY: My point is this: I have no objection to having the deputy minister of agriculture here.

I wonder if we should not consult with the Auditor General to determine whether that official would be most appropriate to answer the questions that we would want to put to him and which have already been raised here.

I want to add another question to the ones which were raised. I would like to know the exact statutory authority which would permit this method of sale. The official from the office of the Auditor General indicated that the government has the power to make sales in this way, and I would be most interested to know under what statutory authority they can do that.

Mr. HENDERSON: That could be covered at the time we have the deputy minister present. I might add that the deputy minister of the Department of Agriculture is the responsible official in this case, but as you pointed out, he

may wish to bring with him someone more directly concerned with this particular problem. That is something which should be discussed with him at the time he is asked to come before the committee.

Mr. CAMERON (*High Park*): I would think he would have an appraisal and we could study it so as to know what the depreciation over the years would be.

Mr. HENDERSON: I should prefer, Mr. Chairman, if he could come before you and discuss this. In fairness to the entire transaction that would be the proper thing to do. He would have the benefit of studying this testimony.

Mr. WINCH: May I say, for the information of the officials of the office of the deputy minister of agriculture that, in accordance with our terms of reference, this committee should ask him to bring all the orders and papers that have to do with this matter.

The VICE-CHAIRMAN: Does this committee agree to this?

It is agreed.

The VICE-CHAIRMAN: Paragraph 48 reads as follows:

48. *Questionable charge to Agriculture appropriation (Vote 164).*

This appropriation reads:

Amount required to recoup the Agricultural Products Board Account to cover the net operating loss recorded in the Account as at March 31, 1963—\$870,014.

The amount of \$870,014 recorded for the net operating loss of the Agricultural Products Board for the year ended March 31, 1963 included \$364,000 for donations of 4,064,000 pounds of skim milk powder to international charitable organizations. The donations were made in consultation with the Department of External Affairs and the authority relied on was order in council P.C. 1962-1576 of November 6, 1962 which purported to be issued pursuant to subsection (1) of section 4 of the Agricultural Products Board Act, R.S., c.4. This subsection reads, in part:

Subject to the regulations, the board may, with the authority of the Governor in Council and under the direction of the minister

(c) buy, sell or import agricultural products.

Since there is no reference to donations in this subsection, or elsewhere in the act, the propriety of the board's donating the skim milk powder to the international charitable organization—and, therefore, the propriety of reimbursing the board out of agriculture vote 164 for this portion of the board's net operating loss—is open to question. By way of contrast, during 1960-61 the board was reimbursed for a similar donation by the Department of External Affairs from Vote 673 of that fiscal year, which gave specific authority as follows: "To reimburse the agricultural products board account for whole milk powder donated for international relief purposes—\$2,420,000".

Mr. HENDERSON: Paragraph 48 deals with the "questionable charge to Agriculture appropriation". This is a case of vote wording not disclosing additional pertinent information, namely, that \$364,000 of the \$870,014 net operating loss was to cover a donation of skim milk powder to international charitable organizations. As shown, the Agricultural Products Board Act does not appear to permit any donations of this type and therefore we believe the charging of these donations in this manner to be open to question. This might be a paragraph, Mr. Chairman, to which Dr. Davidson would care to speak when he is discussing instances of this type, that is to say, vote wording.

The VICE-CHAIRMAN: Is it your opinion that this amount should be charged under another heading, or another department?

Mr. HENDERSON: Yes, sir, or else the vote wording should have been enlarged to indicate that this donation was to be included therein.

The VICE-CHAIRMAN: Is it the desire of the committee that we hold this question until we have Mr. Davidson here?

Mr. HARKNESS: Is not the basic point here that donations of this kind, of skim milk powder and whole milk powder and other food products of various kinds, which were made chiefly to underdeveloped countries or to areas where starvation existed or where a natural disaster had taken place, had always in the past and throughout the history of these things been made through the Department of External Affairs, and that the appropriation of the vote to cover the expenditure was always charged to the Department of External Affairs? In this particular case, for this \$364,000 of skim milk, this was not done, and it was charged up to the agricultural products board.

Mr. HENDERSON: If you notice, I say at the end of the note, at the top of page 21:

By way of contrast, during 1960-61 the board was reimbursed for a similar donation by the Department of External Affairs from vote 673 of that fiscal year, which gave specific authority as follows: "To reimburse the agricultural products board account for whole milk powder donated for international relief purposes—\$2,420,000.

Mr. HARKNESS: This has been going on for a long time; it extends back many years, and all donations were always made to and charged through the Department of External Affairs.

Mr. HENDERSON: It is my responsibility, as you know, to see that payments conform to the authority of the vote wording, and if the vote wording does not contain that authority, I must raise the matter.

Mr. HARKNESS: As a result of this, you have a charge which should not be there against the agricultural products board, and you fail to have the total amount of the foreign aid provided under that vote in External Affairs. Therefore, you have really two errors there, and things which people can complain about. The amount of foreign aid shown in external affairs is not as big as it was, and on the other hand, the expenses of the Department of Agriculture are greater than they actually were.

The VICE-CHAIRMAN: You might want to take this question up with Mr. Davidson.

Mr. HARKNESS: The only thing we need to find out is why this was done instead of the usual practice being followed.

Mr. GRAFFEY: Is there no procedure between departments that could regularize this even if it appears under the vote? I am speaking of something that went to the Department of Agriculture instead of the Department of External Affairs.

Mr. HENDERSON: Presumably not, or else they would have charged it elsewhere. It might have been an oversight; they became accustomed to charging it under this vote and failed to recognize that the wording did not include the authority to do so.

Mr. GRAY: I should like to ask two questions here. First of all, is it possible, that the document carrying out the actual donation was in effect a transfer of one dollar which would make it a sale?

Mr. HENDERSON: I think not. Have you any recollection of that, Mr. Stokes?

Mr. GRAY: I am talking about transferring the title of the milk itself to the international organization. I raise that because if that was the case it would be a sale even though it may have been undervalued.

Mr. HENDERSON: The note says that:

The donations were made in consultation with the Department of External Affairs and the authority relied on was order in council P.C. 1962-1576 of November 6, 1962 which purported to be issued pursuant to subsection (1) of section 4 of the Agricultural Products Board Act.

That being the case we could not find any authority there.

Mr. GRAY: All I am driving at is that if the actual document transferring the title from the government to the world health organization said "we hereby convey to you this note for the consideration of one dollar", it would be a sale.

Mr. WINCH: But have you no record of that sale?

Mr. HENDERSON: I do not know the precise answer to that question.

The VICE-CHAIRMAN: That might be a question that you would want to ask the deputy minister of agriculture.

Mr. HARKNESS: That is not the way in which this sort of transaction has been handled in the past, to my knowledge. Things such as skim milk powder, or other agricultural food products held by the agricultural stabilization board or by this commodity board, were always turned over to the Department of External Affairs, either at cost or at some lesser amount which had been arrived at by considering a sum which would enable the product to be sold on any market that was available.

Mr. GRAY: The other question I wanted to ask Mr. Chairman, was that if the wording of the appropriation, which says "the amount required to recoup the Agricultural Products Board Account to cover the net operating loss, is as broad as it is, why would it not cover a loss to any purpose, whether it is through the making of a donation or through a sale?

Mr. HENDERSON: I am afraid I did not hear your question precisely.

Mr. GRAY: I notice in your comment on item 48 there is in effect a question of the propriety of reimbursing the board out of the agricultural appropriation vote 164 apparently because it may not have been a sale pursuant to the Agricultural Products Board Act. My question is, if the actual wording of the appropriation reads, "amount required to recoup the agricultural products board account to cover the net operating loss recorded in the account as at March 31, 1963—\$870,014" and this wording does not limit the nature of it, where would the impropriety arise in that instance?

Mr. HENDERSON: I am not raising any question of impropriety on donating milk to international charitable organizations, but I have to be governed by the wording of the vote. The order in council makes no reference to any sale for one dollar, and it only says "to offer to international agencies for relief purposes such quantities of dry skim milk which in the opinion of the Minister of Agriculture would not be required for emergency or welfare purposes in Canada". I also have a copy of a letter written by the deputy minister of agriculture to the secretary of the treasury board which he was kind enough to send to me last March and which states in part "that, with respect to paragraph 48 the Auditor General's observation, a donation of a product by the agricultural products board was improper under the authority of the agricultural products board. We accept that there was an error in this respect."

Mr. HARKNESS: This was the point I was going to bring up. The impropriety is that it is contrary to the Agricultural Products Board Act. The agricultural products board is purely a merchandising organization. The act was passed in order that we would have in the Department of Agriculture a body which had statutory authority to buy and sell these various products which

the stabilization board did not have in this way, and therefore there is no authority in that act for this body to spend any money except the administrative cost of buying and selling.

The VICE-CHAIRMAN: I do not want to curtail the discussion which is very interesting, but I should like to draw to the committee's attention that the defence committee is anxious to use this room.

Next week on Tuesday at 9:30 Dr. Davidson will be the witness, and we will discuss the carryover paragraphs 108, 109 and 110 of the 1962 Report. We will also deal with paragraphs 45, 50, 93, 94 and 95 of the 1963 Report. The meeting is adjourned.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

TUESDAY, JUNE 30, 1964

WITNESSES:

Dr. George F. Davidson, Secretary of the Treasury Board; and Mr. A. M.
Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Basford,	Hales,	Rinfret,
Berger	Harkness,	Rochon,
Cameron (<i>High Park</i>),	Lessard (<i>Saint-Henri</i>),	Rock,
Cardiff,	Loiselle,	Rondeau,
Côté (<i>Chicoutimi</i>),	Mandziuk,	Ryan,
Crouse,	McLean (<i>Charlotte</i>),	Scott,
Drouin,	McMillan,	Smith,
Dubé,	McNulty,	Southam,
Fane,	Muir (<i>Lisgar</i>),	Stefanson,
*Fisher,	Nowlan,	Tucker,
Forbes,	O'Keefe,	Valade,
Francis,	Pigeon,	Wahn,
Frenette,	Pilon,	Whelan,
Gendron,	Regan,	Winch—50.
Grafftey,	Ricard,	
Grégoire,	Richard,	
Gray,		

M. Slack,
Clerk of the Committee.

CORRECTION—(*English Copy Only*)

PROCEEDINGS NO. 9—Thursday, June 25, 1964

Last line on inside front cover should read:

“Replaced Mr. Beaulé on June 23”

instead of

“Replaced by Mr. Beaulé on June 23”

*Replaced Mr. Cameron (*Nanaimo-Cowichan-The Islands*) on June 30
after the morning sitting.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, June 30, 1964.

Ordered,—That the name of Mr. Fisher be substituted for that of Mr. Cameron (*Nanaimo-Cowichan-The Islands*) on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, June 30, 1964.

(11)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Car-diff, Fane, Forbes, Gray, Grégoire, Hales, Harkness, McMillan, Muir (*Lisgar*), O'Keefe, Rinfret, Ryan, Southam, Stefanson, Tardif, Tucker, Winch (20).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Dr. George F. Davidson, Secretary of the Treasury Board; Mr. J. C. Allen, Director, Estimates and Administrative Procedures Division, Treasury Board; and Messrs. Long, Laroche, Chapman, Millar, Smith and Douglas of the Auditor General's office.

The Report of the Subcommittee on Agenda and Procedure was presented by the Chairman, dealing *inter alia* with the schedule of witnesses until the end of July. (*See Evidence*).

On motion of Mr. Winch, seconded by Mr. Fane,

Resolved,—That the report of the Subcommittee on Agenda and Procedure, presented this day, be now concurred in.

The Chairman then tabled the Reports of the Auditor General to the Board of Directors of the Canadian Broadcasting Corporation on the examination of the accounts and financial statements for the years ending March 31, 1962 and March 31, 1963 respectively. (*Identified as Exhibit No. 2*).

Copies of the tabled reports were distributed to members of the committee.

Mr. Henderson supplied the answer to a question by Mr. Cameron (*High Park*) at sitting of June 25. Mr. Henderson also tabled returns to two other inquiries and the Committee agreed that these be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 1*).

The Committee resumed its consideration of the carryover items of the 1962 Report and also the Report of the Auditor General for the fiscal year ended March 31, 1963.

The Chairman introduced Dr. George F. Davidson and Mr. J. C. Allen of the Treasury Board.

Messrs. Henderson and Davidson reviewed paragraphs 108, 109 and 110 of the 1962 Report and paragraph 45 of the 1963 Report; both witnesses supplied additional information and were questioned thereon.

The Committee agreed to sit again at 8.00 p.m. this evening.

The questioning of Messrs. Davidson and Henderson still continuing, at 10.45 a.m., the committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(12)

The Committee resumed at 8.10 p.m. this evening. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Fane, Forbes, Francis, Gendron, Hales, Muir (*Lisgar*), Southam, Stefanson, Tucker, Whelan, Winch (14).

In attendance: (same as at morning sitting).

The Auditor General tabled a return to an inquiry relating to paragraph 43 of the 1963 Report, "*Other non-tax revenues*". The Committee agreed that this be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 2*).

The Committee resumed discussion of paragraph 45 of the 1963 Report of the Auditor General, *Governor General's special warrants*.

Messrs. Davidson and Henderson reviewed paragraph 45, supplied additional information and were further questioned thereon.

Paragraphs 50, 94 and 95 of the 1963 Report were reviewed by Messrs. Davidson and Henderson and they were questioned thereon.

The Committee reverted to Paragraph 11, *Findings of the Royal Commission on Government Organization*, and to Paragraph 9, *Form and Content of the Estimates* of the 1963 Report, both paragraphs which were carryovers from previous sittings. Messrs. Davidson and Henderson expressed their views on these subjects and were questioned thereon.

The questioning of Dr. Davidson being concluded, the Chairman thanked Messrs. Davidson and Henderson and Mr. Henderson's staff on behalf of the Committee.

The Chairman announced that officials of the Canadian Broadcasting Corporation would appear before the Committee on Thursday, July 2.

At 10.25 p.m., the Committee adjourned until 9.30 a.m., Thursday, July 2, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, June 30, 1964

The CHAIRMAN: Gentlemen, I see a quorum.

Before we proceed with our meeting may I say that your steering subcommittee, as requested, held a meeting the other day and we discussed, among other things, the question of the agenda and one or two other items.

I am going to read to you the recommendations of your steering committee and ask for the usual motion, if it pleases you.

Your steering subcommittee recommends:

1. That the following be the tentative agenda of committee for the period of June 30th to July 30th:

You will note how optimistic we are; we are stopping at July 30.

<i>Date</i>	<i>Witness</i>	<i>Agenda</i>
Tuesday, June 30	Dr. G. F. Davidson, secretary of the treasury board	1962 report carry-overs: Para. 108 109 110 1963 report: Para. 9 45 50 93 94 95
Thursday, July 2	C.B.C. officials	1962 and 1963 accounts, etc.
Tuesday, July 7	C.B.C. officials	1962 and 1963 accounts, etc.
Thursday, July 9	L. Richard, president, C.A.D.C. E. B. Armstrong, deputy minister, national defence	Report on sales and surplus equipment national defence items (Armstrong only) 1962 report carry-overs: Para. 74 78 79 81 82 115 1963 report: Para. 64 65 66 67 68 69 70
Tuesday, July 14		Carry on 1963 report (or Mr. Armstrong continues)

STANDING COMMITTEE

<i>Date</i>	<i>Witness</i>	<i>Agenda</i>
Thursday, July 16	Mr. George Scott, acting deputy min- ister of transport	1962 report carry-overs: Para. 100 101 115 1963 report: Para. 84 85 86 87 98(1)
Tuesday, July 21	Mr. R. B. Bryce, deputy minister of finance	Exchange fund report 1962 report carry-overs: Para. 62 66 140 141 142 144 145 194 1963 report: Para. 45 52 53 54 55 56 57 58 59 60 61 110 123 124 125 175
Thursday, July 23	Mr. Lucien Lalonde, deputy minister and Mr. G. B. Williams, assistant deputy minister of public works	1962 report carry-overs: Para. 99 115 1963 report: Para. 79 80 81 82 83 96 98
Tuesday, July 28	Dr. A. W. Trueman, director, and other Canada council officials	1962 and 1963 accounts

This is very tentative at the present time.

<i>Date</i>	<i>Witness</i>	<i>Agenda</i>
Thursday, July 30	Mr. David Sim, deputy minister of national revenue, customs and excise	1962 report carry-overs: Para. 88 89 90 91 92 93 94 1963 report: Para. 75 76 77

Now, gentlemen, this is a tentative schedule, and the officials concerned have been contacted. The dates I have mentioned probably will be the dates of the appearances but, however, they are subject to some change, in which case the committee would be notified.

2. That an interim report be submitted to the House within two or three weeks dealing *inter alia* with the Auditor General's "follow-up" report and his 1962 report.
3. That a subcommittee be formed to further consider the "form of the public accounts".

I should say that the latter comes following discussions which we had here and also following receipt of a letter which I had from Mr. Balls, the comptroller of the treasury in which he referred to this and indicated at some future date, subject to our being able to form a committee and getting together with Mr. Henderson and his staff, a subcommittee might fill a useful function in dealing with the form of the public accounts.

If this meets with your approval I would ask for a motion for the adoption of this report. As I have said, the dates are as firm as they can be at the present time.

Mr. CARDIFF: Could we have a copy of that schedule for reference?

The CHAIRMAN: Mr. Cardiff, this will be printed in today's proceedings.

Mr. WINCH: I will move the adoption of the proposed agenda of the steering subcommittee.

Mr. FANE: I will second the motion.

Motion agreed to.

The CHAIRMAN: Gentlemen, this morning we will have to stop about 10 minutes earlier because of the fact that caucuses are being held and this room will be required.

In view of the fact that the officials are making preparations for appearances before this committee and will appear with the required material I would hope the committee at this time might give serious consideration to having multiple meetings in one day, if found necessary, to complete the work which we will commence in the morning. I realize this may be a strain on us but I think we should bear in mind that the officials are here, and I hope this will be agreed to, if found necessary. Of course, we can deal with it at each hearing before adjournment.

Mr. Davidson is attending a treasury board meeting this afternoon. However, he will be available this evening if we are unable to complete what we have started out to do this morning. I will bring this matter up again before adjournment.

Before calling Mr. Davidson there is one more thing I should say. There is available for tabling this morning the 1962 and 1963 long form reports

made by the Auditor General to the C.B.C. I have discussed this with the officials of the C.B.C. and they will be tabled today. We have available a number of copies in English. The French copies are now being prepared and I think we will be able to have them distributed shortly. However, we will require a motion for tabling in order to make them available to the members of the committee.

In addition, we have a number of the C.B.C. annual reports, both in French and in English. Of course, this report already has been tabled in the House of Commons, as a result of which it is not necessary to table it here. But, in case some members have not access to this report—they may have taken them home with them over the recess to study—it will be available here and can be picked up by members. This will give you an opportunity to consider it before we proceed.

In addition, there will be the annual financial report of the C.B.C. which also will be available.

May I have a motion that these documents be tabled?

Mr. HALES: I so move, Mr. Chairman.

Mr. STEFANSON: I second the motion.

Motion agreed to.

The CHAIRMAN: Before introducing the witness may I first call on Mr. Henderson to comment briefly on those aspects of the 1962 and 1963 reports in which Mr. Davidson is interested. They were all referred to and itemized on the notices sent out to you. You should have them before you.

Mr. WINCH: Before Mr. Henderson proceeds, I understand he now has prepared and has in his possession a number of tables and information requested by this committee. In order that we may avoid the necessity of considering these now may I suggest they be tabled and published in today's proceedings?

The CHAIRMAN: Thank you, Mr. Winch. I had intended to do that.

I would ask Mr. Henderson to refer to these before dealing with the matters which Mr. Davidson is concerned with, and then I would ask for a motion to table them.

Mr. MUIR (*Lisgar*): Could you please give us the chapters in the 1962 report to which reference was made? I have not my copy with me this morning.

The CHAIRMAN: Paragraphs 108, 109 and 110 of the 1962 report and paragraphs 9, 45, 50, 93, 94 and 95 of the 1963 report.

However, before dealing with these Mr. Henderson will refer to some material which was requested previously, so that it can be tabled.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Well, the three points on which we have answers this morning deal, firstly, with Mr. Cameron's inquiry on June 21 concerning the proceeds from sales by crown assets disposal corporation. The corporation retains 4 per cent of all real estate sales and 10 per cent of commodity sales and the remainder which amounted to \$8,543,000 in 1962-63 and is recorded in the revenues of the Department of Defence Production. As from April 1, 1964, a change has been made in the former procedure and the Department of National Defence now receives the proceeds of sales of its surplus commodities and under authority included in 1964-65 votes 15, 20, 25 and 30 may use these moneys to supplement its appropriations. The purpose of this is to provide an incentive to the department to clear out surplus materials as recommended by the royal commission on government organization.

The next question on which I would report relates to the inquiry in respect of the composition of the figure with regard to other loans and investments shown at \$12,565,000 in the table in paragraph 40 of my 1963 report. I have the particulars here and with your permission I will hand them to the clerk to insert in the evidence.

The final item had to do with Mr. Winch's inquiry in respect of oil and gas exploratory permits, and the information we have assembled in this respect also will be handed to the clerk for inclusion in the minutes of today's proceedings, if that is agreeable.

The CHAIRMAN: Thank you. These will be printed.

Could I have a motion that this material be printed as an appendix?

Mr. McMILLAN: I so move.

Mr. WINCH: I second the motion.

Motion agreed to.

The CHAIRMAN: Now, would you be kind enough to deal with the matters which Mr. Davidson will be discussing with us today so that we may then launch into that?

Mr. HENDERSON: The first of these is paragraph 108 in the 1962 report, having to do with educational leave costs.

You will recall that we discussed this paragraph from my 1962 report in our sixth meeting held on June 16, at which time we turned also to a similar paragraph, number 93, which appears at page 62 of my 1963 report. Neither the estimates nor the public accounts show the aggregate cost of financial assistance to persons on educational leave, which takes the form of allowances in lieu of salaries, living allowances, tuition fees, book allowances and travelling expenses. Together these costs amount to a large figure, the salary portion, for example, in the year 1961-62 having approximated \$265,000.

When we were drafting paragraph 93 for my 1963 report on this subject my officers and I met with officials of the Department of Finance who informed us that they proposed to give consideration to our suggestion with a view to showing educational program costs separately in the public accounts. I have no further advice on this but presumably this consideration should include the separating of this cost in future under separate appropriations at the time the estimates are submitted to parliament, and it will therefore, be of interest to have Dr. Davidson's view on this aspect.

The CHAIRMAN: I do not think Dr. Davidson needs much introduction to the members of this committee. Dr. Davidson has appeared before this and other committees on other occasions in various capacities. He has a long and distinguished career in the public service and is, as I said, no stranger to committees of the House of Commons. He has with him Mr. J. C. Allen, director, estimates and administrative procedures division, treasury board. Mr. Allen, of course, has appeared before this committee on many occasions.

Dr. G. F. DAVIDSON (*Secretary of the Treasury Board*): Thank you Mr. Chairman. You have been kind enough to make reference to previous appearances on my part before this committee in other capacities. I should merely like to add that my appearance this morning before this committee in my new capacity of secretary of the treasury board is still a new and strange experience for me since I have been the secretary of the board for only one and a half months as of this moment. I think I need say no more than that to indicate to the members of the committee that I still lack a good deal of background and experience in dealing with the many problems that we will have to deal with both this morning and on other occasions, and I should merely like to ask the members of this committee to bear that fact in mind when they begin to assess the adequacy of some of the answers that I am in a position to give this morning. I think it would be presumptuous of me in respect of many of the questions, on the basis of six weeks experience in my new capacity, to express too definite opinions regarding what should or should not be done in respect of some of those problems.

The Auditor General has raised a question in respect of educational leave and I should merely like to say that it does seem to me to be logical, that whatever is done in respect of the manner of showing these costs in the public accounts should be equally applicable to the presentation of these costs in the blue book of estimates. I will be glad to follow up the conversation Mr. Henderson has had with the officers of the Department of Finance on the basis of the statement which appears in paragraph 93 to the effect that the officers of the Department of Finance propose to give consideration to the suggestion of the Auditor General with a view to showing the educational program costs separately in the public accounts.

I should merely like to raise one question, Mr. Chairman, for the purpose of clarification. One of the reasons I think which has prompted the department and the treasury board in the past to lump these educational leave payments with salary costs has been the fact that, in their minds at least, this kind of expenditure relating to one kind of leave, namely educational leave, has been identified with the numerous other kinds of leave, such as sick leave, furlough leave, annual leave and all the other variations of leave which are provided in one form or another through the Civil Service Act and otherwise. I take it however, that the distinction is that all the other kinds of leave are provided for by statutory authority and are properly, therefore, to be regarded as salary costs, whereas in the view of the Auditor General this particular kind of educational leave is regarded as something separate and apart from salary costs by virtue of the fact that allowances are paid in lieu of salary. I assume it is that fact in the mind of the Auditor General which sets this particular kind of leave apart from the other kinds of leave to which I have referred.

I merely make this point because I think it would lead us into difficulties if through a decision to separate educational leave costs and provide for that separately in the public accounts we were to find ourselves in the position of having to separate out salary costs owing to leave on account of sickness, or salary costs on account of annual vacations, or other leave costs. If we were to find ourselves in the position of having to separate these out, and have separate appropriations made for them instead of dealing with them as part and parcel of salary costs, there would be difficulties.

I merely wanted to put that distinction on the record as one which strikes me as having some validity. Possibly I could inquire through you, Mr. Chairman, whether this is a point which accords with the view of Mr. Henderson, that this is a different kind of salary cost.

Mr. HENDERSON: May I speak to that point, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. HENDERSON: Dr. Davidson correctly assesses the situation and I am glad that he is going to give it some consideration.

Educational leave in this context is an optional thing which carries with it a number of other expenses. When a person is sent away to a university, or to do some postgraduate work, there are, as he explains, allowances in lieu of salaries. These individuals also receive living allowances, tuition fees and book allowances as well as travelling expenses, and it seems reasonable to us to determine the size of the costs of this educational program. It is on that basis that we felt it would be a useful refinement and certainly add to your information were they to be separately shown.

Mr. DAVIDSON: Perhaps I could make one additional observation observation, Mr. Chairman. I am grateful to Mr. Henderson for his elaboration of this point. He did, however, refer to the desirability of using this separation of the educational leave costs into a separate item of the public accounts and estimates as a means of showing to members of parliament the cost of this educational program for public service employees. It does seem to me that it would be a

little risky to place too much reliance upon such a figure, if and when it does appear in the estimates and public accounts, as being a true reflection of the cost to the employer of providing this kind of educational support to its employees; because there are in fact, as I am sure Mr. Henderson will confirm, other kinds of training and educational costs which are part of what the government as an employer provides for the training of its employees.

It would not be accurate I think to conclude that the segregation of this particular item in the estimates and public accounts is going to give to parliament a truly accurate picture of the total costs to the government as an employer of providing educational and other training support to the employees on the public payroll. I am thinking, for example, of quite a wide variety of training programs and career development programs, and other types of expenditures which are directly related to the same objects as those for which educational leave is provided, namely, to improve the qualifications and capacity of the members of the public service. I think Mr. Henderson would agree that while this may give a valuable reflection of what is paid out by the public service as a whole by way of this particular kind of educational support, namely, educational leave allowances and related expenditures, there will still be in the background an unidentified substantial sum of money spent departmentally, and through the civil service commission and otherwise, for training programs for civil servants who are regarded as being on duty while they are actually undergoing that training.

The CHAIRMAN: Are there any other questions in respect of this item?

Mr. CAMERON (*High Park*): Is the point about sick leave, and so on, not that that type of leave is statutory? This is not statutory; it is under the regulations. It says here that the new regulations which came into force in April of 1962 made no provision for the payment of salaries for people granted such leave. Then the treasury board gave the green light, so to speak, in cases in which the deputy minister reported that he was granting leave in certain circumstances and thought the remuneration should be made on whatever basis the minister thought appropriate. Is that not the point?

Mr. DAVIDSON: I think that is the point. This is not a kind of leave provision specifically provided for in the statute. Technically, the payments made to the individuals who are granted educational leave are not salary payments as are the payments made to people on sick leave. The payments made to people educationally are allowances made under the authority, as I understand it, of section 7 of the Financial Administration Act to people who are on leave of absence without pay.

Mr. CAMERON (*High Park*): What is wrong with Mr. Henderson's suggestion that there should be an estimate showing what that will be in any current fiscal year? Then it would be necessary for the deputy minister to say that Mr. So and So is entitled to attend Queen's University, for example, and is to be paid such a salary; and the treasury board will have a report on it and can go back and justify such an expenditure.

Mr. DAVIDSON: Exactly. I did not suggest there was any reason why that should not be done.

Mr. CAMERON (*High Park*): I thought you were suggesting that it might not show all the expenditures under that head.

Mr. DAVIDSON: I think that is a correct statement, but that is not a reason for not doing it. It is rather a warning to the members of the committee that they should not expect this figure, if and when it does appear, to be a complete reflection of the total costs to the government of the educational support and training that they are providing to members of the public service.

Mr. CAMERON (*High Park*): No, but it is an estimate of what it may cost.

Mr. DAVIDSON: For educational leave only, yes.

Mr. CAMERON (*High Park*): What other kinds of leave are there? What kinds of leave are there other than statutory leaves and this one particular exception?

Mr. DAVIDSON: Obviously I am not making myself clear. I was not suggesting that there were other kinds of educational leave payments. I was suggesting that the figure showing the costs of providing educational leave should not be taken as the total cost to the government of providing educational support and training for the members of the public service because there are other kinds of expenditure involved as, for example, when the government puts on training courses under its own auspices. In such a case, civil servants are detached from their duties in order to attend those courses provided by the government. In those cases the civil servants are considered to be on duty.

Mr. CAMERON (*High Park*): Why are they considered as being on duty? Is there a statute or a regulation that says they are on duty?

Mr. DAVIDSON: This is training provided by the government itself as part of the training program for its own employees.

I subject my views to Mr. Henderson on this, but I think I am correct in stating that training programs provided by the government itself for its own employees do not involve the requirement of releasing the person concerned on leave of absence without pay.

Mr. CAMERON (*High Park*): We will have to depend upon Mr. Henderson to check on that, but would you have any objection to this being dealt with in the manner suggested by Mr. Henderson if there is an estimate showing how much it is proposed to spend or how much may be spent in any fiscal year for such purposes?

Mr. DAVIDSON: I have no objection whatever to this, but I do think that it should be tied up to whatever is done on the public accounts side.

Mr. HENDERSON: It would be an excellent start in providing this important information for what is a very large employer. It could be that having made that start we could go on and put into that figure the other training programs that are paid by other departments in order to wind up, as Dr. Davidson says, with a more truly correct picture of the total cost of training our employees. This would be, at least to our way of thinking, a very worth while start; and that is why we raised it.

Mr. McMILLAN: What, roughly, is the total cost? I see the salary part is \$265,000.

Mr. HENDERSON: For the educational program part, yes. I do not think we have that figure, Dr. McMillan, because under the present arrangement the costs are throughout all the appropriations. We are seeking to pull them together in order that you can see the total figure.

Mr. DAVIDSON: And the travel charges.

Mr. HENDERSON: Yes, in the case of the other programs he mentions, but in our view this would be an excellent way to start it if it carries the blessing of the committee.

Mr. HALES: I think parliament would like to know this figure and I think we should make a start in this direction. It will be improved from time to time.

I would like to ask one or two questions, and my first question has to do with travelling expenses when one is away.

The CHAIRMAN: To whom are you directing your question?

Mr. HALES: To Mr. Henderson.

Are the travelling expenses paid to one who is on leave included in the travelling expenses of that department?

Mr. HENDERSON: Yes.

Mr. HALES: When you set up this system, these will go in as part of the educational allowance?

Mr. HENDERSON: That is right.

Mr. HALES: Does any one department more than another use this educational leave?

Mr. HENDERSON: Dr. Davidson might have a view on that. I think these facilities are available generally to all departments, are they not?

Mr. DAVIDSON: Yes, sir. I would venture to guess—and I am speaking quite without specific knowledge on this—that in those departments where there is a higher proportion of what you might call professional classes of employee, the use of educational leave is likely to be higher than in other departments.

Mr. HALES: On what basis is this granted? Is there any guarantee on behalf of the employee that he will remain in government service for any specific length of time after he has obtained the leave?

Mr. DAVIDSON: I will have to check on this. I know there is an educational policy that has been developed by the treasury board that is generally applicable to the service and is, of course, the basis on which the deputy ministers of each department make their applications to the treasury board for permission to grant educational leave allowances in the specific cases in which they are interested. Certainly the implied obligation is that the individual will return to his employment after he has completed his training program.

Mr. HALES: And remain for a certain length of time? That is what I want to know.

Mr. DAVIDSON: I will have to get that for you.

Mr. HENDERSON: I might mention for the benefit of the committee that in this same report, paragraph 74, which we have not reached yet, deals with the improper use of a government owned automobile by an employee when he was taking a course at a university under this particular educational leave program. We will be dealing with that paragraph when we reach it, but it explains in rather more detail how an employee operates under this particular program although, unfortunately, in this case I had some criticism to make as to the way in which it was done. I have discussed that with the deputy minister concerned and he has been good enough to give me a statement about it which I will discuss with you when we reach the paragraph.

The CHAIRMAN: For the benefit of members of the committee who have just arrived, may I say that we are now dealing with paragraph 108 of the 1962 report and paragraph 93 of the 1963 report of the Auditor General. Dr. Davidson, the secretary of the treasury board, has come here to discuss these with the committee. The other material you have been given, which is in connection with the Canadian Broadcasting Corporation, is for Thursday and is of no concern with the affairs of the committee this morning.

Mr. MUIR (*Lisgar*): I would like to ask Mr. Henderson if there are items in the various departmental appropriations for these programs for each department. Is there any way of getting this so we may study it?

Mr. HENDERSON: Not at the present time, Mr. Muir, no. If these discussions—to which, I gather, Dr. Davidson has subscribed with his associates in the Department of Finance—are continued we should be able to work it out.

Mr. MUIR (*Lisgar*): How do the various departments work in this respect? How do they show the costs?

Mr. HENDERSON: The individual costs go into their own expenses. For instance, the travelling expenses, while the person is going to university, go into the department's travelling expenses, along with the travelling expenses of

people engaged on government business. In this proposition these expenses would be pulled out and shown separately in order that we could show the total costs for educational training.

Mr. MUIR (*Lisgar*): In other words, have we no idea of what this job training program costs?

Mr. HENDERSON: We cannot go beyond that figure now because the costs have ended up in all the various categories in all the different departments which have sent people away on such courses. It may turn out to be a more difficult problem, but this is the general idea, if it has the blessing of the committee.

Mr. FORBES: I take it that these courses are special courses applicable to the departments in which the employees are working.

Mr. HENDERSON: Generally speaking, yes. I know in the case of the Department of Agriculture employees are sent away perhaps on a postgraduate course or brushing up course. That is not always the case but generally they take advantage of some course that is offered by a particular university. These departments consider it good business to send a bright young man away for three or four months to attend these courses. That is the sort of criteria they bring to it. Is that not so, Mr. Davidson?

Mr. DAVIDSON: Yes, so far as the detachment of individuals for the purpose of educational leave is concerned.

Mr. HALES: Mr. Henderson, would it be your department which lays down instructions in respect of program training costs? As I see it, it will be a problem to assess actually what is the program training cost.

Mr. HENDERSON: We would continue our discussions with the Department of Finance and treasury board staff, but we do not take action administratively in these matters. It is more a question of agreeing with them in respect of what they would propose to show. They probably would say: "This is how we propose to do it; have you any comments or suggestions to make?" Then, after informal discussions we probably would work that out together. We do that in respect of a number of things. But, the carrying out of it and the presentation of it is the responsibility of the Department of Finance and the treasury board staff, for the reasons I have given.

The CHAIRMAN: Are there any further questions in respect of this matter?

Mr. CARDIFF: Are these courses given to these men to improve them for the positions they now hold or are they to give them a better education to fit them for doing a different kind of job?

Mr. HENDERSON: It may be that they have their eye on a particular man and feel that if he were subjected to a particular course at a particular university he might groom himself to undertake some larger responsibility in a particular department or, in another department.

Mr. CARDIFF: And, is the employee paid his regular salary while off duty?

Mr. HENDERSON: He is paid an allowance in lieu of salary and given his expenses. In the case set out in paragraph 74 you will note that the tuition fees were \$250, which the government paid, and they paid his travelling expenses. In this case he had a government car while he was doing it. This is the point I am criticizing in paragraph 74.

Mr. DAVIDSON: It is precisely because this employee while on leave is not being paid a salary but is being paid an allowance in lieu of salary that Mr. Henderson feels the costs should not be shown as part of salary costs.

Mr. CARDIFF: I now understand it. I just could not figure out how this worked. I thought perhaps he was on leave and drawing his salary while attending this course.

Mr. HENDERSON: He might have been in the department only a short time or he might be a long term employee.

Mr. SOUTHAM: I would like to refer to the third paragraph under paragraph 93, where it states:

...where the deputy head is of the opinion that an employee who has been granted such leave without pay warrants some assistance from public funds during training, submissions indicating the reasons why financial assistance is warranted and requesting payment of allowances in lieu of full or partial salary should be submitted to the treasury board.

In other words, the full responsibility of deciding who should qualify for these educational programs falls entirely on the deputy head. In your opinion, is there sufficient control on the expenditures of such money or do you feel that there should be some other way to tighten this up?

Mr. HENDERSON: I would ask Mr. Long to speak to this, as he is very familiar with the situation.

Mr. LONG: Mr. Southam, the deputy head grants leave without pay for them to attend a university or take a course. The cost is involved when treasury board authorizes payment of an allowance in lieu of salary which may be equal to the salary, half of it, or some other fraction of it, but treasury board does retain control of the costs.

Mr. SOUTHAM: In other words, the deputy head is the one fully responsible for making the recommendation to treasury board. But, my question is this. Is there any laxity or evidence of it, say, in consultations between the deputy head and treasury board?

Mr. HENDERSON: They discuss this together and the deputy head more or less is responsible for any recommendations for the expenditure, provided the treasury board will accept it.

Mr. DAVIDSON: That is right.

Mr. SOUTHAM: Mr. Henderson, are you satisfied with this procedure?

Mr. HENDERSON: Yes. I would not have any reason to criticize that. I think the deputy head should be thoroughly capable of deciding.

Mr. DAVIDSON: I wonder if Mr. Henderson would not agree with me that this is one of the types of cases where the Glassco commission is critical of the fact that so many of the individual decisions have to come to the central treasury board to be made by the board on behalf of the department; and that if one were to follow here the philosophy which underlines the recommendations of the Glassco commission one would alter this procedure and substitute for it a procedure by which the treasury board would have the responsibility for formulating a policy and use of guide lines, laying these down in a way that would make it possible for the departments to administer this policy without losing control of the program. I myself would venture the suggestion that it is toward that kind of an objective that we should be working rather than being content with a procedure by which every single application for leave throughout the entire public service has to go to the ministers on the treasury board to be decided.

The CHAIRMAN: May we move on now to paragraph 109, as follows:

109. *Cost of gasoline used in departmental motor vehicles at Ottawa.*

As noted in last year's report (paragraph 83) the feasibility of supplying gasoline and oil for all government vehicles in Ottawa from central supply points had been referred to the government motor vehicle committee for consideration.

As the result of a survey completed by the committee in January 1962, it was estimated that the annual cost of gasoline purchased for crown-owned vehicles in the Ottawa area amounted to \$73,700, of which \$33,276 was for gasoline obtained from commercially operated service stations. On this basis, it was estimated that the cost would have been reduced by \$14,000 if all gallonage had been supplied by crown-operated facilities.

On September 28, 1962 we were informed that the study of this matter by the government motor vehicle committee was almost complete and that a presentation was to be made to the treasury board in the near future.

Mr. HENDERSON: This relates to the cost of gasoline used in departmental motor vehicles at Ottawa.

Members may recall that we also discussed this matter in the committee on June 16 last, when I explained to the committee how we had been informed on November 5, 1963 by the secretary of the treasury board that the government motor vehicle committee was studying another alternative for supplying crown-owned vehicles with gasoline requirements on a bulk basis which would produce a better price than that which is presently paid but would allow the provision of gasoline through service stations. Since then we have had no further information from the board but we have noted in the audit that a special discount of 3 cents per gallon, which had been allowed on purchases by the House of Commons, was discontinued by the oil company on August 19, of last year.

Mr. DAVIDSON: Well, I insist that our efforts to meet the suggestion of the Auditor General in respect of this paragraph cannot be directly tied up with the withdrawal of the special discount allowed to members of parliament! At least, I hope not! If that is the case, I think the Auditor General must share the blame with us for that unhappy result!

The Auditor General's 1962 report does state in paragraph 109:

On September 28, 1962, we were informed that the study of this matter by the government motor vehicle committee was almost complete and that a presentation was to be made to the treasury board in the near future.

The CHAIRMAN: Did you have a comment, Mr. Gray, or were you reserving your place for questioning?

Mr. GRAY: Mr. Chairman, did I understand Mr. Davidson to say that at one time members of parliament were allowed a discount in respect of gasoline for their vehicles?

Mr. DAVIDSON: It was not I; I think it must have been Mr. Henderson.

Mr. HENDERSON: This would be by the House of Commons staff.

Mr. GRAY: Are you referring to the trucks that bring supplies to the house?

The CHAIRMAN: This does not refer to members of parliament. Perhaps I should say this before a wrong impression is created in the minds of the public.

Mr. GRAY: I just thought I should bring up that point.

Mr. DAVIDSON: Following through on that last sentence in paragraph 109 of the Auditor General's report for 1962, I would like to report that, in fact, as indicated in that sentence, a report was presented to treasury board in October, 1962. The matter was then considered by cabinet but cabinet decided not to alter the existing arrangements at that time, and they informed treasury board of that decision. The secretary of the treasury board at that point took the initiative, and asked the treasury board staff to investigate the possibility

of working out alternative arrangements which would produce economies in the government's annual gasoline bill, starting from the Ottawa area, which was the subject of the comment by the Auditor General in paragraph 109, but also extending to the larger area of the government's motor fuel requirements across Canada. Some progress has been made in that regard. A survey has been undertaken in which departments have been asked to supply a range of information relevant to the purposes of the inquiry. This information is now in the process of being assembled by the staff of the treasury board. It is hoped that when we get this information assembled in proper fashion we will be able then to go to the Department of Defence Production, which is, as members know, in the process of being converted into a central procurement agency for the government as a whole, and put to the Department of Defence Production with concurrence of the treasury board the proposal that the Department of Defence Production should explore the possibility of arranging for the government's gasoline requirements to be put out on tender on some pooled basis which will make it possible for us to realize over the entire area of the public service the kinds of economies through pooled purchasing which are referred to in paragraph 109 of the Auditor General's report.

That is the position in which we are at the present time, Mr. Chairman. We have, as I say, this information now in the process of being assembled, covering the larger picture. We intend, as soon as we are in a position to do so, to present a coherent picture to the ministers of the board, and, subject to their concurrence, we will then turn to the Department of Defence Production with the proposal that it should explore this possibility as part of its total responsibility in the procurement field.

Mr. GRAY: Dr. Davidson, I am wondering whether the figures you are assembling will take into account the extra cost of establishing crown-owned distribution points?

Mr. DAVIDSON: This system does not necessarily depend upon crown-owned distribution points, Mr. Gray.

Mr. GRAY: The reason I ask that question, doctor, is that I note in paragraph 109 of the report, at page 51, the following statement:

On this basis, it was estimated that the cost would have been reduced by \$14,000 if all gallonage had been supplied by crown-operated facilities.

This question should perhaps be directed to Mr. Henderson, but I am wondering whether the suggestion contemplates the setting up of new facilities, which would incur an additional cost to the government, or whether facilities are in existence at the present time to handle this type of supply?

Mr. HENDERSON: Mr. Gray, I think the suggestion was based on facilities in existence and I do not think it is contemplated to set up new distribution points. That is my recollection.

Mr. HALES: Mr. Chairman, I think we should proceed until we have completed the report by the treasury department so that we will be in a better position to review it.

The CHAIRMAN: Yes. This will be covered by Mr. Henderson's follow-up report next year.

If there are no further questions in respect of this item may we now deal with paragraph 110?

110. *Cost of advertising.* In 1961-62 the total cost of advertising passed by the advertising unit of the comptroller of the treasury's office, including agency and non-agency advertising was in excess of \$5,000,000.

Prior to 1954 there was an arrangement with the Canadian Daily Newspapers Association whereby government advertising enjoyed a

special rate, but this arrangement was allowed to lapse. During the course of the audit we noted that a publisher had drawn the attention of a government department to the advantage of entering into a contract for classified advertising, pointing out that there was a difference of twelve cents per line between the contract rate and the casual rate—from 34 cents to 46 cents. The minimum annual usage to qualify for the contract rate in this case would be 2,000 count lines whereas the department had used 2,624 lines of classified advertising in the previous two months.

We suggested to the Department of Finance on April 13, 1962 that the field of government advertising might usefully be reviewed in the interests of greater economy. The department replied on September 17, 1962 that the treasury board several months earlier (on May 23, 1962) had approved our suggestion in principle and that officers of the treasury board were currently looking into the matter.

Mr. HENDERSON: Paragraph 110, dealing with the cost of advertising, was likewise discussed on June 16 last by the members of this committee, and it was in response to Mr. Tardif's question on that date that I furnished particulars to the committee at the next meeting, on June 18, quoting the advertising rates of Ottawa newspapers. At that time I pointed out that the government does not at the present time receive any special rates from these Ottawa newspapers despite its large advertising volume.

As the note states, in my 1962 report, there had been an arrangement prior to 1954 whereby the government enjoyed such a rate, but the arrangement was allowed to lapse. It was as a result of noting how a publisher had drawn the attention of a government department to the advantage of entering into a contract for classified advertising—thereby saving money to the government to the extent shown—that I brought this matter to the attention of the Department of Finance on April 13, 1962, suggesting that the field of government advertising could at least be reviewed in the interests of achieving greater economy because the total cost of advertising was running in excess of \$5 million annually. The department advised me on September 17, 1962 that the treasury board had approved our suggestion in principle and that officers of the treasury board were currently looking into the matter.

Next year, on May 28, 1963, the treasury board issued a circular letter directing that departments and agencies placing advertising in daily newspapers were to negotiate the purchase of advertising with certain newspapers in accordance with the current volume rate shown in a schedule attached to the circular. However, a month or so later, on July 22, 1963, the treasury board issued another circular in which the secretary stated that a number of difficulties had been encountered in negotiating the rates outlined in the schedule, some newspapers insisting that formal contracts covering the minimum amount required to qualify for the volume rates were prerequisite to the granting of the volume rates to any one department or agency. He said that consequently for the time being departments and agencies should merely endeavour to negotiate the best rate possible, keeping in mind the volume rates outlined in the schedule. He advised that the matter would remain under review.

The audit office has been keeping this matter under review because clearly some form of over-all contract covering all government departments could result in appreciable savings.

The CHAIRMAN: Dr. Davidson, would you like to make a comment in respect of this paragraph?

Mr. DAVIDSON: Yes. I should merely like to follow up Mr. Henderson's statement. I think the last date referred to by the Auditor General was July, 1963. My notes indicate that in September, 1963, the treasury board staff on the instructions of the board communicated to the Department of Defence

Production the objective of the board, which is to work toward a position where it will be possible to negotiate bulk rates for the advertising requirements of the government of Canada. As I have mentioned in connection with the previous paragraph, the Department of Defence Production is now in the process of being converted into a central procurement agency for the government as a whole, and it is considered, therefore, that this is the agency through which the government should endeavour to effect this bulk arrangement for the placement of government advertising.

In April, 1964, the deputy minister of defence production indicated that his department was prepared to take on this assignment and that he had set a target date of October 1, 1964 for the completion of negotiation with the newspapers for the purchase of advertising on a bulk rate. This will be done through the regional purchasing branch of the department of defence production.

In respect of this information the treasury board through the assistant secretary, replied to the deputy minister of defence production expressing the willingness of our staff to provide any further assistance necessary to the Department of Defence Production in order to enable it to complete its work on the target date to which reference has been made, and that is the position at the present time.

Mr. HARKNESS: Dr. Davidson, are you dealing there with classified advertising?

Mr. DAVIDSON: My understanding is that this consideration deals with all advertising.

Mr. HARKNESS: The Auditor General's report was particularly directed toward classified advertising.

Mr. HENDERSON: If I may just say a word or two in this regard, that was the case in point that we noted in the course of our work and which brought this to a head, Mr. Harkness, but we are now working toward achieving this objective in respect of the placement of all advertising.

Mr. HARKNESS: In this connection it is my understanding that newspaper advertising contracts have in the past and are still, as far as I know, being placed by advertising agencies; is that correct?

Mr. DAVIDSON: Are you referring to the situation in terms of advertising programs?

Mr. HARKNESS: Yes.

Mr. DAVIDSON: Yes. As I understand it, there is still the opportunity of pooling the government's space and lineage requirements whether it be in respect of classified or other advertising in such a way as to take advantage of lower rates. That is my understanding.

I must say, however, that our inquiries to date have indicated that the savings to be achieved through this pooling of the total requirements are not likely to be as great as we had expected them to be when we started the inquiry.

Mr. RYAN: My question dealt with the pooling of advertising, Mr. Chairman, and Mr. Davidson has made the situation clear.

Mr. CAMERON (*High Park*): Will the cost of setting up a special department in this respect offset any savings to be effected?

Mr. DAVIDSON: The decision to set up the Department of Defence Production as a common procurement agency for the government departments as a whole has in fact already been taken, but the addition of this function to that department's responsibility will, I suppose, add to some extent to the cost of operating that department.

Mr. CAMERON (*High Park*): Will there be a net savings?

Mr. DAVIDSON: The purpose of setting up the Department of Defence Production a common procurement agency is to make it possible for that one central agency—which has in the past been doing the procurement for the Defence Department and has in fact been procuring about \$800 million to \$900 million of the government total procurement requirement of \$1.2 billion,—to do the complete job or the largest part of the job for the civilian departments as well, and thus make it possible to effect some reduction in the purchasing establishments of other government departments.

Mr. CAMERON (*High Park*): I notice civil service opportunities quite frequently in newspapers taking up one quarter to one half a page. Under the new system will the civil service say to the Department of Defence Production: "Here are the opportunities. Will you please arrange for publication in the necessary newspapers?"

Mr. DAVIDSON: As I understand the situation, Mr. Chairman, the placement of individual advertisements will not be the function of the Department of Defence Production, however, the Department of Defence Production will enter into arrangements with the newspapers which will make it possible for the total lineage requirements of the government to be accounted for as a common placement of advertisement by a single customer, so that as the bulk of the lineage increases the government will take advantage of lower rates.

Mr. CAMERON (*High Park*): Will the Department of Defence Production check the accounts for payment?

Mr. DAVIDSON: I will have to beg off in respect of that question because I am not familiar with the detail.

Mr. SOUTHAM: I should like to make a comment, Mr. Chairman.

I think on the basis of what is set forth here under paragraph 110 Mr. Henderson should be commended. Paragraph 110 states:

Prior to 1954 there was an arrangement with the Canadian Daily Newspapers Association whereby government advertising enjoyed a special rate, but this arrangement was allowed to lapse.

The paragraph then gives a specific illustration of the savings, and I think if this was found adaptable, practical and economical in 1954, it stands to reason it would be much more so today because, in view of the increase in Canadian government advertising, the government has become one of the biggest customers and as such should enjoy the more advantageous rates. I am pleased that Mr. Henderson has brought this situation to our attention, and I feel a savings can be effected to some extent by following this procedure.

Mr. HALES: Following along Mr. Cameron's line of thought, I do not think there will be much of a savings effected as a result of a central purchasing department if another empire is going to be created in that department to perform this function. I just cannot understand how this is going to operate unless they take the civil service commission, as he mentioned. They will continue to do the advertising but defence production will simply set the rate that will be paid for that advertising. If they do that, then they will have to check the invoices to make sure the proper rate is charged. This is all confused in my mind.

Mr. DAVIDSON: May I explain, Mr. Chairman, what is my understanding of this arrangement now and what it is designed to be in the future?

Let us say that the daily newspaper association has an arrangement by which a single customer who places 50,000 lines of advertising pays a certain rate for the first 50,000 lines and gets the benefit of a lower rate for the second 50,000 lines and the benefit of a still lower rate for the third 50,000

lines. In that context, the government at the present time has been considered to be 20 or 30 separate single customers, each one of which has been paying rate number one for the first 50,000 lines it has placed, rate number two for the second 50,000 lines it has placed and rate number three for the third 50,000 lines it has placed.

The proposition is that a master contract will be entered into and the government will be considered to be one customer rather than 20 or 30 customers. One can immediately see that the effect of pooling the lines of advertising placed by the separate departments will be that only one group of 50,000 lines for the government as a whole will be charged at the highest rate, and it will enable the government to obtain the benefit of the lower rates for subsequent advertising.

This is my understanding in a rough and simple way of the way in which this operates at the present time and the way in which the pooling arrangement is designed to produce some economies. This does not involve any great amount of elaborate administration on the part of any one department that would require a large organization to be set up to handle it. It merely means that all the government's line requirements are to be credited to one single account rather than to a series of separate accounts as at the present time.

I would like to check with Mr. Henderson whether that roughly corresponds to his understanding of the issue here.

MR. HENDERSON: Yes, it does correspond. It has been very heartening to know the steps you now have under way to follow this thing through. I suggest we might allow the matter to stand on the basis that I will follow this up with Dr. Davidson and his colleagues on the treasury board, bearing your comments in mind. He certainly has brought all the consideration possible to it in so far as what savings can be brought about. We have to do our sums, of course, and see what savings will be effected. I hope it will go into effect and realize some savings; and that is the purpose of the exercise.

THE CHAIRMAN: What is the feeling of the committee with regard to sitting this evening? We have made excellent progress this morning but we have to adjourn in about five minutes' time because of the caucus. Can we be assured of a quorum this evening? Is it agreeable to the members that we should sit this evening?

Agreed.

Then we have another five minutes this morning.

MR. HENDERSON: We might, therefore, pass over paragraph 9, which is the form and content of the estimates, and paragraph 11 which has to do with my comments on the work I am doing in connection with the findings of the royal commission on government organization, a matter with which we might deal tonight.

May we pass now to paragraph 45, which deals with the Governor General's special warrants.

We discussed this comment at the committee's 9th meeting on June 25; the minutes of proceedings are not yet available. The comments of the members on that occasion supported the point of view I had advanced, namely that it would be an advantage were a detailed study made of the financial problems which result when parliament has been unable to make provision for the carrying on of governmental services between sessions. Pending the making of this study and, of course, any possible amendments to the financial Administration Act which would have to be made, my officers and I formed the impression from last Thursday's discussion that parliament expects that the precise wording of section 28 (1) of the Financial Administration Act should be interpreted strictly, that no commitments should be entered into during such a period for which parliament has made no provision, nor should

the section be interpreted as providing a continuing spending authority to the executive for the financing of general government services during such period.

We left the matter open on the basis that we would resume this discussion today when we had the benefit of Dr. Davidson's advice.

Mr. WINCH: I presume Dr. Davidson understands the key points in the minds of the committee members on this matter of Governor General's warrants. We all understand they can only be used when the house is not sitting, but I believe I am correct in saying that the question in the minds of all of us is whether or not the Governor General's warrants can be used for something new, something outside the general procedure, outside the public business.

The CHAIRMAN: We might have Dr. Davidson's comments on that.

Mr. DAVIDSON: I am going to be brash enough to say that I have never had any experience with Governor General's warrants and I hope I never do, but that is not a decision that I will be making in my present capacity as secretary of the treasury board. I have not had the benefit of reading the discussion which took place here on Thursday because I do not think the proceedings of that meeting of the public accounts committee have been printed yet.

Mr. HENDERSON: That is correct.

Mr. DAVIDSON: I am a little bothered. I must say, by what Mr. Winch has just said. As I read section 28, subsection (1), there seems to me to be little doubt about the fact that the authority for the use of special warrants as set out in section 28 (1) of the Financial Administration Act is at best an imperfect instrument for meeting the contingency created by the abrupt dissolution, for example, of parliament on February 6, 1963, with supply not voted. I would be inclined to agree with what I understand to be the position of the Auditor General as set out in paragraph 45 where he indicates that in his view section 28 (1) seems to be designed primarily for meeting another kind of contingency. Section 28 (1) seems to contemplate a relatively tranquil state of affairs when parliament is dissolved after supply for the year has been voted, but some emergencies arise following dissolution and no specific appropriations exist to meet these contingencies in the supply that has been voted for the year and is otherwise sufficient for normal government operations. In such a situation the wording of section 28 (1) of the Financial Administration Act applies and seems adequate, but for the situation in which parliament is dissolved with supply not voted, section 28 (1) is less than adequate. Nonetheless, when parliament was dissolved on February 6, 1963, there was really no alternative but to make use of section 28 (1). Dissolution took place on February 6; no funds had been voted to meet expenses for the month of February.

Section 28 (1) seems to me, Mr. Winch, to be designed to meet the very point about which you express concern. It seems to me to be designed to meet primarily a situation in which parliament dissolves with normal supply voted and with the departments of government able to carry on in the ordinary way, but in which some unforeseen contingency arises when a sum of money that is not in the voted estimates is urgently required for the public good. What "urgently required for the public good" really means is a matter of judgment, and we can have many arguments as to whose opinion should prevail. However, section 28 (1), it seems to me, is designed specifically to make it possible for the executive authority to use the Governor General's special warrants to obtain the money for that specific purpose.

Mr. WINCH: May I suggest that between now and eight o'clock Mr. Davidson may have access to the minutes of the proceedings of our last meeting so that he may understand the confusion in our minds, and also may

I suggest Mr. Davidson look at example number five on page 18 in which we see that \$114,950 is asked for when, according to our information from the Auditor General, they had available \$49,926 which could be used for any purpose whatever. They did not use that for part of the requirement; they asked for the whole business. It is that kind of matter upon which we would like to have an understanding.

The CHAIRMAN: I will see that Mr. Davidson has a chance to see the proceedings of the last meeting. The meeting is now adjourned until eight o'clock.

EVENING SESSION

TUESDAY, June 30, 1964.

The CHAIRMAN: Thank you, gentlemen, for being so prompt. I see a quorum. We shall resume where we left off, save that Mr. Henderson has a brief comment he wishes to make in respect of some information required. So before Dr. Davidson resumes, I shall call upon Mr. Henderson.

The CHAIRMAN: Thank you, gentlemen, for being so prompt. I see a quorum.

Mr. HENDERSON: Mr. Chairman, there remained one more item or breakdown of information which you asked that I undertake to furnish. You may recall that it had to do with other non-tax revenues which we were discussing under paragraph 43. In particular you asked for a breakdown of miscellaneous other non-tax revenues, a figure of \$16,982,000, as shown in the table on page 16. I would like to furnish the details of this breakdown in accordance with the request, for printing in your minutes of proceedings.

The CHAIRMAN: Thank you. Is it agreed that this breakdown be printed as an appendix?

Agreed.

(See appendix two.)

We were dealing with paragraph 45 in the 1963 Auditor General's report, and Dr. Davidson was making some comments at the time of our adjournment. I now ask Dr. Davidson to continue prior to the questions being asked.

Mr. DAVIDSON: Mr. Chairman, I had made a brief comment at the end of the meeting this morning with reference to a question put to me by Mr. Winch. The gist of what I had to say was that it seemed to me that section 28, subsection (1) of the Financial Administration Act, as written, is better designed to deal with a situation in which there is a completely unforeseen expenditure which has to be made, and for which there is no covering appropriation than it is designed to deal with a situation such as was encountered last February when parliament was dissolved without a vote of supply. In consequence, section 28, subsection (1) was used for a purpose which, in the ordinary reading of the section, would not seem to be the primary purpose for which it was written. And now, may I read from the section. It reads as follows:

28. (1) Where a payment is urgently required for the public good when Parliament is not in session and there is no other appropriation pursuant to which the payment may be made, the Governor in Council, upon the report of the Minister that there is no appropriation for the payment and the report of the appropriate Minister that the payment is urgently required for the public good, may by order direct the preparation of a special warrant to be signed by the Governor General authorizing the payment to be made out of the Consolidated Revenue Fund.

No reference is made in this text to a distinction between payment with respect to an item that is in the printed or supplementary estimates before parliament at the time of dissolution, and an item which is not in the printed estimates. I take it that the Auditor General, in the paragraphs which he has written following the section which I have quoted, takes much the same view of the primary meaning of this section and its primary purpose as I have just indicated.

Now, Mr. Winch also asked me to read the evidence of the proceedings of this committee of last Thursday in order to get a better background of the problems that were concerning members of the committee; and he asked me, in the light of this, to turn my attention to illustration No. 5 which is shown in the list, reported by the Auditor General on page 18 of his report, of items which, in his view, could not be regarded as being payments urgently required for the public good, within the purview of section 28, subsection (1) of the Financial Administration Act.

I have looked at item 5, which is the item referring to the National Gallery of Canada, where there were two special warrants totalling \$114,950 provided to take care of administrative expenses of the National Gallery of Canada without taking into consideration \$49,926 which were available for this purpose in the gallery's special operating account. As I understand it, the question that was put to me was: Did I not think that the amount provided by special warrant should have been limited to the difference between these two amounts, and should the national gallery not have been required in effect to use up, to exhaust the surplus that was available in their special operating account before they drew upon the special warrants?

If I were completely clear in my mind as to the purpose of the special operating account of the national gallery, I could answer that question.

Mr. WINCH: Might we have it read again?

Mr. DAVIDSON: I think I have it before me. I have no doubt what the words are, but I have some doubt about what the words mean. Section 8 of the National Gallery Act reads as follows:

8. (2) There shall be a special account in the Consolidated Revenue Fund called the National Gallery special operating account to which shall be credited all money received by the Board by way of donation, bequest, revenue or otherwise.

(3) Any expenditures for the purposes of this Act may be paid out of the National Gallery special operating account or out of money appropriated by Parliament for such purposes.

On the face of it, this means that when anyone gives a donation or makes a bequest to the national gallery, the moneys go into the special operating account, and those moneys may be used to meet the operating expenses of the national gallery in any year to reduce thereby the demands upon parliament. There is no doubt about it that that is what those words, taken literally, mean. But those words taken literally also mean that an expenditure for the purposes of this act, whether it be for operating purposes or whether it be for capital purposes—whether it be for the ordinary day to day expenditures, or whether it be for the purchase of works of art—may be paid out of the special operating account. In fact, over the years, since it seemed that a special operating account based upon such principles of input and output did not seem to have much purpose, some ground rules and restrictions have been placed upon the use of the operating account.

In practice, one of the restrictions that has been placed on the operating account, I believe, is that any money paid into the account by way of a donation is set aside in a sort of special trust subaccount and is treated rather

separately, the implication being that it would not be right to take a donation or a bequest and simply use it for the ordinary operating expenses of the fund, since in most instances at least the donor would have some more significant intention in mind in making a contribution to the national gallery in this way.

In like manner certain restrictions have been in practice placed upon the use to which the fund may be put. For example, there has been an exchange of correspondence between my office and that of the Auditor General in which it has been made clear that at different times the national gallery has been told that they should not use the money in this special operating account for the purchase of works of art. Now, there is nothing in law which prevents them from doing that, but by direction they have been told that they should not use it for that purpose, and there have been other occasions when the national gallery has in fact been asked to proceed on the basis of policy that this money was not to be simply regarded as an additional amount of money for its ordinary operating expenses, because this would in fact be a back door method by which the national gallery could get more money to spend for administrative purposes than parliament intended it to get through the appropriations it made for this purpose from year to year.

I cannot, I must say, criticize the national gallery authorities too much at this stage for not knowing what the special operating account is really designed for. If I were asked today to give the committee a clear statement as to the clear intent and purpose of parliament when it set up this special operating fund, I could not say that in my opinion it was clearly intended to be used for the purchase of works of art, because there is another special account for this very purpose. Equally I could not say that in my opinion parliament intended this special operating account to be set up merely as a supplement to money that parliament votes from year to year for ordinary operating expenses of the gallery. Had that been the case, I do not believe that parliament would have provided that contributions from individual donors or bequests would be put into this account, nor do I believe that parliament would have considered it an appropriate way to exercise control of the administrative expenses of the gallery to have made it possible to supplement the operating expenses that parliament provides in the year to year vote, through a reserve account of this kind that is made up in part from the sale of catalogues, reproductions, fees for exhibitions and other services, donations for specific purposes, and miscellaneous revenues. I must therefore conclude that there is a very grey area so far as the proper decision in respect to this item is concerned. I think it is a matter of opinion whether or not this was an item that was properly included in a special warrant in the amount in which it was included. The one thing I am satisfied with as a result of my examination is that we certainly need to clarify the position with respect to this special operating account so there will be no doubt in anyone's mind in the future whether the purpose of this special account will be for works of art or for operating expenses or for any other purpose.

I think that is all I would have to say by way of a preliminary statement on this matter.

The CHAIRMAN: Thank you. Are there any comments?

Mr. MUIR (*Lisgar*): I think Dr. Davidson has given us very logical reasons for this vote, but I am wondering for what purpose the gallery uses this special account.

Mr. DAVIDSON: I have here, Mr. Muir, a statement which shows from year to year the purposes for which use. The receipts have been derived from the sources which I have mentioned to you—from the sale of catalogues and reproductions, from fees in connection with exhibitions and other services, from donations made from time to time from outside groups for specific

purposes, and from miscellaneous revenues. The disbursements have been from time to time for works of art, for operating expenses, for supplementing appropriations, for payments from trust funds or donations. These latter items are the payments made from that portion of the special operating account which is recognized as a trust fund for the receipt of earmarked donations. These then are the different kinds of payments which have been made under those heads in the past.

It is quite clear from this list of disbursements that the special operating account has been used for both purposes; it has been used at times for purchase of works of art and it has been used at times for operating expenses. There is nothing to say, as far as the law is concerned, that it cannot be used for either or both of those purposes, I would venture myself to say—and this is a matter of opinion and a matter of judgment—that it would have been unusual, to say the least, to have had recourse to the use of the entire balance remaining in this fund to meet the situation created by the dissolution of parliament. I say this, in view of the fact that this special account has been established by parliament to carry funds forward from year to year, presumably, for some purpose, and also in view of the fact that, had this fund been drained to meet the situation that presented itself at the end of March, 1963, there was in fact no way by which it could have been replenished in order to enable the gallery to carry on, using the resources of this fund, in any way in future years.

I admit this is a pretty grey area. It is quite clear that if the purposes and intents for which this fund had been created had been such as to prevent the money in it from being used for operating expenses of any kind, then clearly the sum of \$114,000 would have been the proper sum to have included in the special warrant. It is equally clear that, if this special operating account had been very clearly intended to supplement the ordinary administrative expenses provided by parliament, the position would have been the reverse, that the provision by special warrant of \$114,000 would have been in excess of the sum that should have been provided.

I submit, Mr. Chairman, that the uses to which this fund has been put over the years have created just enough doubt about the purposes for which this fund is really intended to justify the conclusion that it is not clear that the essential purposes of this fund are that it should be used to supplement the administrative expenses that parliament appropriates in its annual appropriations from year to year.

Mr. MUIR (*Lisgar*): Yet it would have been quite in order to use some of this sum provided the \$114,000 had not been adequate if they were doing it in the way in which it had been done in the past.

Mr. DAVIDSON: On the record of the past, Mr. Muir, it is quite fair to suggest that some portion of this fund should have been recognized as being available for operating expenses in an emergent situation such as presented itself to parliament. It is equally clear to me that so far as the law is concerned it would have also been fair for the gallery authorities to take the position that some portion of this fund should properly be reserved for purchases of works of art. The law says any expenditure for the purposes of this act may be paid out of the national gallery special operating account or out of the money appropriated by parliament for this purpose.

Mr. MUIR (*Lisgar*): Have you any idea of the amount in this fund?

Mr. DAVIDSON: The record of the past five years, which will perhaps give you some guide, indicates that the total receipts in any one year—and this does not include the balances carried forward from one year to another—

have run from \$33,000 to \$27,000, \$59,000, \$29,000 and \$26,000. Expenditures have run from \$35,000 to \$10,000 in 1959-60, \$13,000 odd in 1960-61, \$52,000 in 1961-62 and \$26,000 in 1963. The balances carried over amounted to \$13,000 in 1958-59, \$31,000 in 1959-60, \$77,000 in 1960-61, the high figure, and \$54,000 in each of the past two years.

I might add one comment of interest to the committee: the particular matter which concerned the staff of the treasury board about the use of this fund arose from the fact that in accordance with provisions of the act, moneys derived from the sales of catalogues and reproductions and other printed material of this kind were being deposited into the special operating account. This meant that moneys appropriated by parliament were being used to print the catalogues and other articles that were for sale, and the revenues derived from these products which were printed at the expense of parliamentary funds were being deposited in this special operating account, thus giving parliament, to that extent, correspondingly less control over the total funds it would wish to make available for the operating requirements of the national gallery.

We took up this matter with the national gallery authorities in 1960-61 and told them that we did not think from that point on the revenues derived from the general sale and distribution to the public of catalogues and reproductions should be deposited into this fund. From 1961-62 those funds have gone to the Queen's printer who has been the responsible agent. The result has been a very sharp diminution in the revenue accruing to the gallery from this particular source of revenue in 1961-62. This is shown by the fact that prior to 1961-62 the revenue from sales and catalogues was \$21,000; it was \$17,000 in 1959-60, and almost \$50,000 in 1960-61. At that point we became interested, and in 1961-62 the revenues going into the special account from this source dropped off to \$8,000 and, in 1962-63, to \$2,600.

Mr. CARDIFF: The reason there is so much difference in the revenue each year would be the lack of, shall we say, donations in those particular years.

Mr. DAVIDSON: The principal reason is the reason I mentioned; that is, as of a given year the money derived from the sales of reproductions and catalogues in the national gallery was returned to the Queen's printer rather than put into the special operating account.

Mr. HENDERSON: May I interject to point out that the misgivings Dr. Davidson mentioned about parliamentary control are something I drew attention to both in my 1962 report, where I deal with the national gallery, and in this 1963 report on page 139. In the last paragraph I pointed out how parliamentary control may be weakened by the supplementing of specific appropriations for purchases of works of art by expenditures from the national gallery special operating account. In a sense, this is a separate matter from the questions I am raising under paragraph 45 in respect of the Governor General's special warrants.

It is a fact, as Dr. Davidson says, that parliamentary control does stand to be weakened, but I may hasten to add that I certify the financial statements of the national gallery separately just like those of any crown corporation or agency each year and the full particulars of the income and outgo of this special operating account are set out as a part of the financial statements thereby providing complete disclosure of its operations. That may commend itself to you as providing the necessary detail to satisfy you. Dr. Davidson is perfectly correct in terms of the fact that they are able to spend this money themselves. I thought I should mention that, because as I have said, it is covered in paragraph 76 later in this report.

Mr. WINCH: Mr. Chairman, I think Dr. Davidson has explained this just about as fully as it can be explained, particularly when he points out there

is a grey area which will have to be studied. It is this grey area which brings me to what I think is the meat of the entire situation in respect of the Governor General's warrants. I believe it is the responsibility of this committee to ask Dr. Davidson as the secretary of the treasury board what certain studies are going to be made, or whether he can give us any indication now with regard to his views. I realize that Dr. Davidson has been only a month and a half in this position; however, I have known him for about a quarter of a century—

Mr. DAVIDSON: Do not put it that way.

Mr. WINCH: —and he has been known in provincial and federal governments for his ability as a trouble shooter and cleaner upper. I would imagine that is why he is in his present position. Could Dr. Davidson give us his comment or any information with relation to any special studies which can be made so that this committee will not have to be as much concerned as we have in the past, and are now, by such statements as we see at the bottom of page 18:

—“urgently required for the public good” when the cheque was held by the department, and, indeed, it would have been irregular in the circumstances even if parliamentary appropriations had been available.

I am not asking you for any statement on item 7 in paragraph 45, but I am referring to the emphasis placed by the Auditor General in respect of the operation of the Governor General's warrants and the fact that he comes out not only with a number of cases and points out there is not the authority or it is wrongly done, and not only was it irregular and not for the public good or urgently required, but would have been irregular under any circumstances. When the Auditor General puts that in a report to the House of Commons, we would like to ask you whether you can express any opinion on this whole matter of the Governor General's warrants.

Mr. DAVIDSON: It is a little easier to express an opinion when you have been six weeks in a job, that it is when you have been six years in a job. So far as I am concerned, without getting into the argument about these detailed illustrations—some of which quite frankly I must say I would have to argue about—I am sure that in any year when special warrants are resorted to there always will be situations of this kind arise in which questions of judgment are involved. It is inevitable that the Auditor General in his capacity will have a different view in some individual instances of what is an item “urgently required for the public good” than the authorities who are responsible for the administration and decision at the time the decision is being made.

Having that in mind, and also having in mind the point which Mr. Henderson and I both referred to earlier—that is the relative inadequacy of section 23 (1) to meet the kind of situation which was encountered in February, 1963, as well as that encountered in February, 1958—I certainly cannot help but agree with the concluding paragraph of the Auditor General here that this problem should be examined in depth.

We will endeavour to see whether we can devise a provision to be considered by the government and by parliament which will authorize a regime for the use of special warrants which will be applicable to the kind of situation we now have encountered twice in the past ten years. From that point on, if we succeed in devising such a legislative provision, it will be for the government, and ultimately for parliament to decide whether or not it will approve of the inclusion of such a formula in the legislation.

I am sure the members of the committee will understand that from my point of view, if I have any responsibility for preparing such a legislative amendment, it will be my duty to present this to the ministers on the treasury board, and it will be for them and for the members of the government to take the decision

with regard to whether or not they are going to recommend such a provision to parliament as a whole. Certainly, there are unresolved problems in this area which require study. On the basis of my brief acquaintance with the situation, I am satisfied that improvements could be made in the legislative provisions for the use of special warrants.

I see no reason why there should be any reluctance on anybody's part to undertake this examination to see what proposals can be developed. I would add, again, the caveat that in any proposal which I have the responsibility of developing, it will be my duty to report to the responsible ministers, and I am not at all clear that it will be possible for me to appear before a committee of this kind, and indicate to the members of the committee the nature of the confidential advice I have given the ministers of the crown to whom I am responsible. I hope the members of the committee will understand my reason for adding that caveat.

Mr. WINCH: The committee desires, shall we say, that the ministers on the treasury board keep in mind that special warrants, no matter what procedures are devised, have to be of such a nature that the ultimate authority of parliament in respect of the expenditure of funds is protected and, if I can put it this way, money under any system of Governor General's warrants must not be spent unless absolutely necessary, because that means they are getting the authority of parliament after the expenditure is made which is not the purpose of parliament.

Mr. HENDERSON: I should like to point out to the members that in a situation of this kind, there are a number of dangers which are inherent. One of the first points to which I directed my attention in respect of what was likely to happen was the instruction which issued by the treasury board staff. On page 17 in the top paragraph I say what the instruction were. You will notice that one of these instructions by the treasury board staff to the departments was that the departments were to make: "an internal review in order to estimate the amount that would lapse in each vote and take such amount into consideration."

We were approaching the end of the fiscal year, and that instruction could, as I read it, be taken several ways. Perhaps being an auditor I might be excused for taking this to mean that this might be considered an invitation to the department to see what they could spend the money on before the balance of the money lapsed, which is something we endeavour to watch very carefully as fiscal years come to a close in order to see that purchases and so forth are not suddenly accelerated in the closing months and weeks because a department has money left over.

In 1961 this point was the subject of quite a bit of discussion in this committee. I was asked what steps I took and how I watched money that was apt to lapse in the votes. I was asked whether there was a great flurry of purchasing during the closing months of fiscal years or not. I think perhaps some of you will recall that discussion. This perhaps might serve to explain the very point that you mentioned when under Item 7 we were dealing with the cheque for \$6,000 issued on April 30, which is the last day of the 30 days following the close of the fiscal year. I refer to the cheque for \$6,000 which was issued to the corporation of the town of Sioux Lookout on April 30 and which was held until June 5.

I would hope that different wording could perhaps be used in issuing instructions to departments because it did seem to me a little bit like an invitation for departments to look over the situation to find things they perhaps might include.

I should like to ask Dr. Davidson if he has any comment in this regard, and whether he would agree with what I have said.

Mr. DAVIDSON: Before I comment, Mr. Chairman, I should like to ask Mr. Henderson a question. Do I understand from you that the words you have

referred to in this paragraph are words that were taken verbatim from instructions that the treasury board sent out to the departments?

Mr. HENDERSON: Yes, that is correct. These are not in quotation marks but they paraphrase the words that were employed in the instructions that went out from the treasury board to the various departments.

Mr. DAVIDSON: I do not have the words of that instruction before me.

Mr. HENDERSON: My point is, if I may say this, that this is dangerous wording to use in respect of expenditures and particularly in the last month or so of the fiscal year.

Mr. DAVIDSON: As I say, Mr. Chairman, I do not have the wording of the letter of instruction before me. If these words are in that letter of instruction I must agree that they are not the words I would use. However, I should like to add that I do not believe for one moment, and really cannot believe that Mr. Henderson believes for one moment, that the purpose of the use of these words by the responsible members of the staff of the treasury board was to say in veiled language to the departments to whom this letter of instruction was directed that they should estimate the amount of money that would lapse in each of their votes and then hurry up and spend as much of that as they could before the end of the year.

It seems quite clear to me that any reasonable interpretation of the purpose and intent of these words would indicate that they were used to issue a warning to the departments concerned that they should be careful to deduct from any amount that they were going to ask be supplied to them by way of a special warrant any amounts that they did not need because these amounts were going to lapse through the lack of requirement for these votes to be provided before the end of the fiscal year. I must say, quite frankly, to put any other interpretation on these words seems to me to strain beyond reason the reasonable interpretation which any reasonable man would place upon those words. I say again, I can hardly believe that Mr. Henderson is seriously suggesting that these words were intended to convey some instruction to the departmental officers concerned to inflate their requirement to the maximum in order to avoid any vote lapse.

Mr. HENDERSON: I am not suggesting that I believe the letter contained precise instruction of that kind. If I were departmental management and told by the treasury board to estimate the amount that would lapse in each vote and to take such amount into consideration, it would not seem unreasonable to me that, whereas the treasury board might put one interpretation on that instruction I, being in charge of the operation of my department, might conceivably be tempted to place the opposite interpretation on those words.

Mr. FRANCIS: Mr. Chairman, is there more than one possible interpretation, that this is an invitation to do what can be done by way of transfer from one item to another?

Mr. HENDERSON: We naturally go to particular pains at the close of each fiscal year to look over the spending patterns, of the departments as best we can, in order to satisfy ourselves that there is in fact no accelerated disbursement. This is not an easy job and it involves the question of looking into the operation of a department in some considerable detail. In most cases we raise these matters with the departments and discuss cases where we think an explanation is required.

Mr. FORBES: How would this account have been handled had the government not been defeated on February 5? Would this have been done by supplementary estimate?

Mr. HENDERSON: Most of the items in these warrants, Mr. Forbes were the subject of supplementary estimates, some of which had been laid on the table

and others which had been prepared but not laid on the table. Presumably the normal process would have been continued and supplementary estimates would have been passed and there would, of course, not have been any Governor General's warrants.

Mr. FORBES: There is no question about the validity of the account but rather a question in respect of Governor General's warrants for the expenditures?

Mr. HENDERSON: As soon as the Governor General's warrant procedure comes into effect the responsibility rests exclusively on the executive to decide what expenses are urgently required in the public good when parliament is not in session and there is no other appropriation pursuant to which payment may be made. Each minister certifies in respect of his department what in his opinion is urgently required in the public good, and these certifications, to which lists are attached, are sent to the treasury board which, as I think I mentioned last week, goes over these things with a fine tooth comb to satisfy itself that they were due for proper inclusion. I know a great many are questioned. I may say to Dr. Davidson that my officers and I did discuss this situation, and had a very useful discussion, about it with Mr. Bryce and Mr. Balls at the time this note was drafted and before it was included in my report. It was our combined view at that time that there was merit in the suggestion contained in the note. We recognized that this was a difficult area, or, as Dr. Davidson referred to it, a grey area and it might make sense to undertake a detailed study along these lines.

The CHAIRMAN: Dr. Davidson, perhaps I may be allowed to ask a question. Would I be right in suggesting that section 28 (1) of the Financial Administration Act was passed in contemplation of a situation arising following prorogation or a dissolution, when the normal situation would prevail and estimates would have been passed making provision for future proper expenditures, and that having been done, before a new parliament appeared on the scene an additional force was required to be sent to Cyprus, for example, or if a flood occurred requiring emergency relief, such a situation would fall squarely within the wording "Urgently required for the public good"? So far as the normal expenditures of the government are concerned, there is sometimes an increasing doubt whether these special requirements do fall within the words "Urgently required for the public good".

The executive, faced with having to find the money to pay for the services, I suppose takes the view, rightly, or wrongly, under the interpretation of this section, that they have to pay wages and make contract obligations good and then in their thinking it is urgently required for the public good. But, if we have a situation where there is dissolution, sometimes unexpectedly, it might be advisable to consider some variation or some addition to this particular section to cover such a situation so, if there are warrants to be provided, there need be no doubt about their validity. In this way we would not have the doubt which does exist from time to time.

Mr. DAVIDSON: I share that view completely. And, when one looks at section 28 (1) against the background of the circumstances of February, 1963, and February, 1958, one really wonders how it was that parliament did not make a more explicit provision for this kind of situation. But, as Mr. Henderson explained in his testimony on Thursday, I think it was, this section replaced an earlier section in which special warrants authority existed for the purpose of putting back roofs on government buildings that had been blown off and a few other contingencies of that kind. I do not think anyone, not even the Auditor General, would argue that these expenditures were not urgently required for the public good.

The CHAIRMAN: The words used were "when parliament is not in session". What would be the situation if the House of Commons recessed by an order for a period of three months and some emergency arises. Is parliament then in session for the purpose of this very section?

Mr. DAVIDSON: Mr. Allen tells me there is an interpretation, which I have read but which I cannot put my finger on at the moment, to the effect that any parliamentary adjournment, where parliament is rising for a period longer than two weeks, is regarded as an occasion where the use of special warrants would be legally justified or in order.

Mr. HALES: Just before we leave this section and to level off the subject, I would like to ask Dr. Davidson what plans has treasury board to take care of or to look into this accelerated spending toward the end of the government year. It is only human nature that if an estimate for a department is in the vote that that department is going to spend that money when it may or may not be necessary to spend it. Have you any comments in this connection?

Mr. DAVIDSON: I have never been through the end of a fiscal year yet in my present position. I would have to say quite frankly in the six weeks that I have been with treasury board that problem has not arisen.

Mr. Allen, who is here with me from the treasury board staff might wish to make a comment in this connection. Mr. Allen has vastly more experience than I have in this regard.

Mr. J. C. ALLEN (*Director, Estimates and Administrative Procedures Division, Treasury Board*): Mr. Chairman, I suppose our view is not diametrically opposed to that of the Auditor General in this regard, but it is bound to be different inasmuch as the Glassco commission has said at the moment most of the programs of most departments come under the scrutiny of treasury board throughout the year in the form of contract clearances and many other detailed clearances along the way, so that one of the ways in which we think this is controlled is through the submissions by departments to the treasury board weekly meetings in respect of proposals for contracts and that sort of thing, and were there to be a flood of these at year end due primarily to the availability of money rather than due to a reasonable need for these purchases, construction projects, or whatever it may be, this would be very obvious to the ministers on the board. I suppose I could venture the guess that those ministers would be more interested in the merits of the case than the desire to spend the money.

The only other thing I might add, Mr. Chairman, is that it is our impression, and I hope it will be Dr. Davidson's a year from now, that clearances by the treasury board, with the advice of this staff, of the main estimates and the supplementary estimates, we think, limits the provision made in the estimates to a reasonable amount that will be required to be spent for the year.

The CHAIRMAN: Thank you, Mr. Allen.

Have you a question, Mr. Forbes?

Mr. FORBES: I have one further question. What becomes of the money that is voted to a certain department for an expenditure within a calendar year and half of it is left; does that revert to the consolidated revenue fund?

Mr. DAVIDSON: It never gets out of that fund. The voting of funds by parliament merely means that parliament is saying to the executive authority that this money is available to be taken out of the consolidated revenue fund on an as and when needed basis for the purpose parliament has voted it; but if the expenditure is not incurred then the vote authority lapses at the end of the year and the funds which have never taken out of the consolidated revenue fund to meet an expenditure which never has been incurred remain where they are.

Mr. MUIR (*Lisgar*): I would like to put a supplementary question to Mr. Henderson in clarification of example 7. I was wondering if he was suggesting the \$6,000 cheque was drawn against a surplus appropriation for that fiscal year so it would not show as a reduction of the appropriation for the next year. Is that what you were suggesting?

Mr. HENDERSON: Yes. Amounts that relate to the period April 1 to March 31 may be paid during the 30 day period following March 31. In effect, at March 31, 1963, the books could be kept open for the 30 day period provided for in the Financial Administration Act, so the last day would be April 30 in order to get it into the year ended March 31. This is to allow for a normal time lag in respect of bills and that sort of thing. But, one day later would place it in the 1963-64 year.

Would you like to comment on this, Mr. Long?

Mr. LONG: The point here is that this amount was not payable until the agreement with the town had been executed; that did not happen until June 5 and, therefore, the amount should not have been payable before the end of April.

Mr. MUIR (*Lisgar*): In other words, that \$6,000 should have been shown as a surplus that lapsed?

Mr. LONG: Yes.

Mr. MUIR (*Lisgar*): And it should have been taken out of the appropriation for the next fiscal year?

Mr. DAVIDSON: I fully agree with that. But, the only thing that needs to be added, and this is added by the department itself by way of extenuation, is that the months for which this \$6,000 was due were the months January, February, March and, I think, either December 1962 or April, 1963, so at the time the cheque was requisitioned, namely on April 30, the money actually was due to the municipality of Sioux Lookout at that time but for the fact that the agreement had not formally been entered into.

The CHAIRMAN: Have you a question, Mr. Hales?

Mr. HALES: Perhaps we should leave my question until later on. It has to do with acceleration of expenses, and I am not quite satisfied with the steps we are taking to overcome this. Looking at page 146 of the 1962 Auditor General's report I notice that the unexpended balance that lapsed that year was \$247,437,015.

I take it that those departments all over-estimated that amount of money.

The CHAIRMAN: We could get an answer to this but we will have ample opportunity to deal with this in full when we reach a similar item in the 1963 report. While we have Dr. Davidson here we still have four items which were specifically directed to our attention. We have had a very useful discussion on item 45. Having in mind that \$650 million was involved indirectly, I think we can say it has been a fruitful and useful discussion.

Mr. CARDIFF: I would like to make one comment. Would it not be much more appropriate to pass the estimates instead of fighting over a flag in the house. After all, it is more important.

Mr. CHAIRMAN: Thank you, Mr. Cardiff. I think the expression is "I will take that under advisement".

Mr. Henderson, might we now proceed with the other items to which Dr. Davidson will be directing his attention? There are several items under the 1963 statement.

Mr. HENDERSON: The next item, Mr. Chairman, is paragraph 50 in the 1963 report before you which deals with grants and contributions included

in general appropriations. We did discuss this matter rather briefly last Thursday because the principle outlined in the first paragraph of this note is fundamental, and, as members of the committee recognize, it is my responsibility to report any deviations from it that we find in the course of our work. Although the particular comment here relates to a Department of Citizenship and Immigration vote, the important of accurate wording in a vote text is of interest to Mr. Davidson as the secretary of the treasury board, and because we have had several instances of this during your consideration of my two reports it would be very helpful to have his comments.

Mr. DAVIDSON: Mr. Chairman, I hope you will not expect me to be completely objective about this particular instance that the Auditor General has singled out for comment because this is a misdemeanour of my own at a time when I was deputy minister of citizenship and immigration, and I am bound to argue the defence of the proposition even if as secretary of treasury board I would take a dim view of this being done by any other deputy minister.

To speak more seriously, there is a problem here which I would like to put to the committee, and I would like to say at the outset that I recognize the danger of there not being close and accurate control of the expenditure of an item such as this through the vote wording in the estimates. We are talking here about grants to organizations. There are several kinds of grants to organizations. There is the kind of grant that is made to a well-known organization such as the Canadian Red Cross Society which receives a grant of \$10,000 a year, which is pretty much an out and out donation and which is made in recognition of the general work that the Red Cross Society is carrying out. There is no particular relationship between what it is that the government is trying to do in a specific area of operation and the grant that is made to the Red Cross Society. That is one kind of a grant.

There is a second kind of grant that is made to the Red Cross Society, and that is the kind of grant that is made, let us say, to the Red Cross Society because of the work that it does in veterans' hospitals—work which if the Red Cross were not doing it with the financial support that the government is giving it, would possibly have to be done in part or in whole by the Department of Veterans Affairs itself.

To come a little bit closer to home, there are, for example, two kinds of grants that were in question in the Department of Citizenship and Immigration when I was there. There was, for example, a grant such as is made every year in the same amount exactly to the Boys Clubs of Canada, or to the Boy Scouts, or the Girl Guides, and there is one other which I forget. These were annual repetitive grants, and my impression is that those grants were detailed in the estimates. I am quite certain, gentlemen, that that kind of a grant in the Department of Citizenship and Immigration estimates was in fact detailed in the estimates; the name of the organization was shown, the amount of money was shown, and that was regarded as a grant which is given by way of a donation to these particular organizations year after year in much the same amount.

The grants which the Auditor General is criticizing here appear for example as vote 15 on page 60 of the revised estimates for 1962-63. They are grants of the following kind: During the period when these grants were being paid our citizenship branch was concerned with the encouragement of the establishment of Indian friendship centres in many cities across Canada. The position that was taken by the Department of Citizenship and Immigration, which is responsible for both citizenship and Indians, was that there were many Indians who came in to work in the larger cities such as Winnipeg and Toronto, who were living down in the less desirable parts of the city, who had

problems of association with decent, respectable people of the community. It was felt by the department that the assistance that was needed to help these Indians find a place for themselves in the community in which they were living was not something that we could possibly do from headquarters or from official sources. What was required more than anything else was acceptance by the community of these Indian men and women as a part of the community, and for this purpose groups of citizens in these different communities who were interested in helping Indians should be encouraged, with the plans that some of them had in mind, to create settlements, community centres, and friendship houses as they came to be called. These grants began to be made first of all beginning with the friendship centre in the city of Winnipeg in the amount of \$5,000 for three years. This happened two or three years before the question which the Auditor General refers to here arose in 1962-63. Under the pattern created by the friendship centre in the city of Winnipeg, a number of other cities in western Ontario and the western part of Canada also began, with some encouragement and stimulation, to organize groups of citizens into friendship centres. The Department of Citizenship and Immigration felt that it should have some flexibility provided within the vote which would enable it to provide encouragement in small grants of \$1,500, \$2,000 and perhaps, in some cases, as little as \$500 to these organizations. At one point in time it became clear that in Fort William a group of citizens had reached the point where, with a little financial encouragement, they could organize themselves and establish a friendship centre. At that point the department wanted to be in a position to make a small grant by way of encouragement, even though it had not been able to foresee this possibility at the time of estimates preparation eighteen months earlier. I merely want the members of the committee to know that it was this situation that produced this result.

If the citizenship and immigration department had in fact in those circumstances been restricted by the wording of the vote to the organizations that were detailed in the estimates in the amounts for those organizations that were detailed in the estimates—in other words, to the global amount that was represented by the sum total of the organizations and the amounts that we could foresee 18 months ahead of time—the submission from the departmental point of view is that they would find themselves in a position in which they could not act to make these timely and significant contributions to new friendship centres at a time when it is particularly important that they should make them if they are going to encourage this type of program to develop. This is regarded as an integral part of the responsibility of the branch to promote good citizenship so far as this type of program assists in the integration of Indians in our Canadian communities.

This is not to say that the practice of spelling out the names of the organizations and specific amounts in the detailed estimates should not be applied to organizations in which the amount of the grant has been stabilized, when it becomes repetitive year after year after year, and ceases to have the relatively dynamic purposes that were envisaged as being the purposes for which these particular grants could be used. That is the defence that would be made from the point of view of the department. The fact that the vote wording here does not contain a dollar limitation or a reference to the details in the estimates would be their defence inasmuch as the details in the estimates would limit the ability of the department to make grants to those organizations for which the names could be supplied at the time the estimates were being presented, some months before the beginning of the fiscal year.

Mr. MUIR (*Lisgar*): Is that what you would call an open-end year if you were supplying certain money for certain organizations and then like organizations wanted to come in afterwards? Would you therefore feel obliged to pay them the same?

Mr. DAVIDSON: If the wording of this vote is maintained in this way—and Mr. Henderson draws attention to this fact—it is possible to transfer between allotments a sum of say \$10,000 from postage and telegraph to grants for citizenship promotion. It is perfectly correct that it then becomes possible to transfer from one primary in the vote to this primary of citizenship promotion and to make grants to a number of organizations which might not be foreseen at the time the estimates were presented to parliament.

The CHAIRMAN: Have you any comment, Mr. Henderson?

Mr. HENDERSON: I am hoping, Mr. Chairman, that the committee might see fit to re-endorse the important principle reiterated in paragraph 50. While Dr. Davidson was describing the situation surrounding these particular grants and contributions Mr. Long and I recalled the action of the British House of Commons and the British public accounts committee in a similar case. I am going to ask Mr. Long to give you an interesting quotation from the British public accounts committee on this very subject because it is extremely pertinent.

The CHAIRMAN: Mr. Long.

Mr. G. R. LONG (*Acting Assistant Auditor General*): This quotation of the British public accounts committee in 1923 referred to a grant in aid to the Lord Mayor's fund for the relief of Armenian refugees. The quotation is this:

We are strongly of opinion that in all future cases where parliament is asked to vote money as a grant in aid the exact amount of the grant should be specified in the estimates so that parliament may be aware of the precise sum which it is proposed to exempt from the ordinary conditions which govern accounting for voted moneys.

The CHAIRMAN: Are there any further comments?

Mr. FRANCIS: Mr. Chairman, I am still trying to sort out the differences. The Auditor General has said that he feels there are circumstances in which perhaps the usual audit of government expenditures is not quite possible, but there should be a specific amount spelled out in the vote. Does Dr. Davidson feel this is not required as a general principle? What is Dr. Davidson's position on this?

Mr. DAVIDSON: I would certainly agree with this as a general principle in terms of grants which might be described as handouts for which there is no relationship between the purpose of the grant and the work in which the government is engaged. I am not so certain that I would endorse that proposition in circumstances in which one is using an organization to accomplish a purpose that is directly related to the general purpose of the vote itself.

May I just remind the committee that this is a primary within a vote, the vote is for the citizenship branch in the Department of Citizenship and Immigration, and the vote is entitled "Grant for citizenship promotion".

Mr. FRANCIS: Is the test the nature of the activity? Without the grant government might have been committed to funds for its own purposes. With the grant there might be a saving in other aspects of government administration.

Mr. DAVIDSON: I think the test is that there should be a clear relationship between the purpose for which the grant is being made, the program which is supported in part by the grant and the purpose of the vote of which this grant forms a part.

Mr. FRANCIS: Granted this is still not opening up quite a new field of public administration, if you abandon the principle of a specific amount being put in the yearly estimates of which parliament approves.

Mr. DAVIDSON: You may be right.

Mr. FRANCIS: I am just asking the question. I am trying to sort out your position.

Mr. DAVIDSON: I recognize the problem. I am certainly concerned about the problem, and I am concerned about ensuring that there is no means by which abuses can creep into the system; but I am concerned about the extent to which one is driven by this principle to the spelling out of a tremendous amount of detail in the estimates. If you look at a number of other votes, for example, you will see there are some new votes in the Department of National Health and Welfare, with which you are familiar, Mr. Francis. For example there is a new program of National Welfare Grants including grants to schools and to social work. Here again in this department one has two kinds of grant being made; one has the vote that lists grants to health and welfare and related organizations, where the same amount of money is being voted more or less automatically year after year—the Canadian mental health association and so on and so on. Then one has the new program which the government has recently initiated—a program which was initiated by the government three years ago or so, the national welfare grants program.

Is one led by the acceptance of the principle referred to by the Auditor General to the application of it to the extent where a program such as the national welfare grants program will have to spell out in the detail of the estimates the precise amount given to every one of the schools of social work across Canada and every one of the organizations that under that grants program will be receiving grants for that specified purpose?

Mr. FRANCIS: Under these specific grants, is there not a specific monetary amount placed before parliament?

Mr. DAVIDSON: Yes, for the program as a whole but not a specific amount for schools of social work as such within this grants program.

Mr. CAMERON (*High Park*): Who makes the decision with regard to who receives these gifts or contributions? Is that the minister, the deputy minister or a combination of both?

Mr. DAVIDSON: As I recall it, Mr. Cameron, in the case of the citizenship item with which we are dealing now grants below a certain amount—I think below \$1,500—were made on the recommendation of the director of the citizenship branch and with the authority of the deputy minister.

Any grants above that had to go either to the treasury board or to the governor in council for approval. I would like to make it quite clear that I am merely trying to pose the problem as I see it. I am concerned about the consequences as I see them for the total estimates. If there is a too rigid insistence on what certainly on the face of it appears to be obviously the proper statement of the principle—that any money that is proposed to be given as a grant to a non-governmental organization should be specially listed by name and detailed in the estimates—I think if we searched the complete range of the estimates at the present time and applied this principle literally to every one of them, we would be carried pretty far in the inclusion of detail in the estimates which would not, in my judgment at least, facilitate the consideration by parliament of the real purposes for which the moneys are being asked of parliament.

I would like to find, frankly, some point at which we could draw a reasonable line so that in acceptance of the very valid principle which Mr. Henderson is bringing forward here we would not be carried by our own logic into accepting it to a length which I think would go far beyond what the committee might have in mind.

Mr. CAMERON (*High Park*): The treasury board has really settled that principle in the instance that you mentioned up to a certain amount, in that the director of citizenship or the director of immigration on the recommenda-

tion or with the approval of the deputy minister can make a grant. If it goes over that amount, then it has to go back to the treasury board. Your problem is to get the money somewhere out of your own organization, is it not?

Mr. DAVIDSON: If we go beyond the provisions made in the details of the estimates, we have to take the money from some other portion of that same vote. We certainly cannot go beyond the vote.

Mr. CAMERON (*High Park*): You could not take it from postage? Did you not mention postage?

Mr. DAVIDSON: Yes, or from travelling expenses. It is a device to transfer between allotments within the vote.

Mr. CAMERON (*High Park*): What do you do if you are short of travelling expenses?

Mr. DAVIDSON: You cannot go beyond the global sum of the vote.

Mr. CAMERON (*High Park*): You would have to get a supplementary estimate?

Mr. DAVIDSON: That is right.

The CHAIRMAN: Or a Governor General's warrant. Are there any further questions?

Mr. HENDERSON: I think we might move a little faster here. There are not very many items remaining. The next paragraph we shall deal with is paragraph 94 on page 62, "Overpayments of Salary."

The CHAIRMAN: We will now deal with paragraph 94:

94. *Overpayments of salary.* Rates of pay for the civil service are established under the authority of sections 11 and 12 of the Civil Service Act, which read:

"11. The governor in council, after the commission has had an opportunity of considering the matter and after considering any recommendations made by the commission, shall

(a) establish rates of pay for each grade; and

(b) establish the allowances that may be paid in addition to pay.

"12. The rates of pay for grades shall consist of minimum rates, maximum rates and one or more intermediate rates, or such other rates as may in any special cases be appropriate."

The treasury board, acting for the governor in council, by T.B. 598360 of July 26, 1962 established a rate of pay for an individual employee in excess of the authorized rates for the employee's grade, with effect from January 1, 1961. This conflicted with a ruling given by the Minister of Justice in 1929 to the effect that the governor in council had no power under the old Civil Service Act to approve of rates of compensation which would raise the salaries of a few persons in a class; in other words, the class was to be dealt with as a whole if at all. As the new Civil Service Act had come into force on April 1, 1962, the question was again referred to the Department of Justice and the deputy attorney general expressed the opinion on June 7, 1963 that sections 11 and 12 of the present act do not authorize a rate of pay to be established for a particular person or employee in a grade, or in respect of a particular position in a grade, in excess of the rates established for that grade.

A copy of this opinion was sent to the central pay office on June 17, 1963 (the Department of Finance and the Civil Service Commission were advised by the Department of Justice) but the employee was still receiving excess salary in October 1963.

Copies of the deputy attorney general's opinion were sent to the secretary of the treasury board and to the comptroller of the treasury on August 12, 1963, in connection with a treasury board minute of May

9, 1963 which established special rates of pay for three grades in the class "collector, customs and excise", and directed that payment at the special rates be made to certain employees in this grades. The employees concerned were still being paid at the special rates in October 1963.

Mr. HENDERSON: Rather than go into the details of this note, I might tell you that the situation outlined here has been regularized by the treasury board as recently as December 5, 1963. Pursuant to section 74 of the Civil Service Act it approved the exclusion of the employees referred to in this paragraph from the obligation of section 12 of the said act, and it approves the payment of higher rates of pay. Therefore, the point I made has been taken care of by the treasury board action. Consequently you may not want to take any time to discuss it. Shall I proceed?

The CHAIRMAN: I think so, since you say the matter has been regularized now, and is in a good situation.

Mr. HENDERSON: Now, we turn to paragraph 95.

The CHAIRMAN: Paragraph 95:

95. *Granting of sick leave to employees prior to retirement.* An opinion was given by the deputy minister of justice in 1930 to the effect that, since sick leave is granted for the purpose of enabling an employee to resume his duties in the public service, it could not properly be granted to an employee if his department had information that he would not be able, or did not intend, to return to duty at the termination of such leave.

In June 1963 the audit office informed both the chairman of the Civil Service Commission and the secretary of the treasury board of the opinion expressed by the deputy minister of justice and each was asked if the opinion conformed to his understanding of the policy intended to be applied. The former replied that it was the intention of the commission to examine the desirability of continuing the practice which had been followed for many years and that if it were concluded that this should be the case, consideration would be given to the most appropriate means of achieving it. The secretary of the treasury board informed us that the board had expected that the provisions of the civil service regulations which had remained unchanged when the present regulations became effective on April 1, 1962 (no change was involved in the discretionary aspect of sick leave) would continue to be interpreted and administered as they had before. He also stated that the board expected that the discretionary feature of sick leave would be applied in such a way "as to avoid conflict with the disability allowance provision of the Public Service Superannuation Act".

Mr. HENDERSON: The point in issue here is whether a civil servant should be permitted to exhaust all of his or her sick leave credits, when it is known that he or she does not intend to return to active duty. The former policy was that sick leave was intended for the purposes of enabling an employee to return to his or her duty, and it seemed to us to be a most reasonable one. The fact that the treasury board had not anticipated any change due to the coming into force of the new Civil Service Act would seem to indicate that the former policy should still prevail, and that the new act and regulations should be amended to make this clear. Perhaps Dr. Davidson might wish to say a word about it.

Mr. DAVIDSON: Yes, Mr. Chairman. I take it there is no question as to the legality of the practice which has developed under the new regulations, even though there is some question whether it was in the mind of the treasury board members that there should have been a change. I take it that the ruling of the

deputy minister of justice is that section 47 permits the deputy head who is satisfied that an employee is unable to perform the duties of his position because of sickness or injury, to grant him leave of absence with pay to the extent that such leave has been earned by that employee in accordance with the provisions of the regulations. I take it that this is in effect at the present time, and is the governing law on the subject. The question is whether inadvertently there was through the passage of the new regulations a change in the regulations governing sick leave provisions which was not intended. If I read correctly from the paragraph on page 64 of Mr. Henderson's report, it would appear from the reply, which I quote that:

The secretary of the treasury board informed us that the board had expected that the provisions of the civil service regulations which had remained unchanged when the present regulations became effective on April 1, 1962...would continue to be interpreted and administered as they had been before.

Now, I have not had the time myself to go into the question as to what the treasury board's intentions were with respect to these regulations. About all I can do under the circumstances is to say that I intend to take this matter up both with the chairman of the Civil Service Commission as well as members of the treasury board, and to come to a decision then as to whether or not these regulations should be changed to bring them into line with the situation as it was before. The decision will of course depend on the treasury board's view of the desirability of making that change.

The CHAIRMAN: Would you agree, Dr. Davidson? The point as I read the paragraph is that in a case where it became quite definitely known through the deputy minister that the employee did not intend to return to work, that this situation would not be proper, and that the sick leave would be in a different category; and that when it was known, or it was felt that he hoped to return, there is a distinction in your mind between the two cases?

Mr. DAVIDSON: I have no doubt that this conforms to the deputy minister of justice's view. In a situation where it is clear that the employee in question, even if restored to health, has no intention to return to work, there is no entitlement to sick leave, in my opinion, under these circumstances; and any deputy minister who insisted on continuing to provide sick leave under such circumstances would be using his discretion, in my judgment, improperly.

It is not quite so clear, however, when you encounter a situation where there may be medical indications that the employee may not ever be able to return to work, but the employee has not accepted this in his own mind, and so far as he is concerned he is carrying on in the hope and expectation of returning to work as soon as his health permits him to do so. I think this is an area where there is much more of a case for the exercise of discretion on the part of the deputy head up to the point where there is accumulated leave entitlement.

I come back to the point, however, that it does not seem to be clear whether there was a conscious change in the regulations or an unintended change in the regulations. I would like to establish that point by taking this problem back to the treasury board, explaining to them what the issues are, and getting the treasury board's view on what they really intend these regulations to provide. I have to admit that I am also in some doubt on another point. Perhaps Mr. Henderson or someone might help me here; but I am in some doubt as to who it is who can initiate changes in the civil service regulations, assuming that the treasury board should feel that this was a regulation which should be changed. Is it the prerogative of the treasury board to change these regulations or to recommend to the governor in council that they be changed, or do the changes have to originate with the Civil Service Commission?

Mr. FRANCIS: This is one of the things we could clear up when we set up a system of collective bargaining through staff associations.

Mr. MUIR (*Lisgar*): I am wondering how a determination can be made in respect of whether or not an employee intends to return.

Mr. DAVIDSON: It is difficult.

Mr. WINCH: He may take all his sick leave before he lets you know whether or not he is coming back. Human nature being what it is, having sick leave coming to them, they think they are entitled to it.

Mr. MUIR (*Lisgar*): I do not think a deputy minister should discriminate in respect of what is fair for one or another.

Mr. WHELAN: I am in a little doubt with regard to sick leave. How many days sick leave may a person build up after so many years of employment how long does he have to be employed before he builds up any sick leave?

Mr. LONG: Fifteen days a year starting from the day he starts work.

Mr. WHELAN: What about a person who never takes a day of sick leave?

Mr. LONG: It accumulates for 20 years.

Mr. WHELAN: How many days is he entitled to; is he allowed so many days for the 15 or 20 years?

Mr. LONG: Fifteen days per year for each year he works, if he has not had any sick leave.

Mr. WHELAN: What about a person who has taken 15 days a year, and then is sick? He would not be entitled to anything if he was off for two years?

Mr. DAVIDSON: That is right.

Mr. FRANCIS: Dr. Davidson brought up the point of who initiates a change in the regulations. There is nothing before us which indicates an answer to the question. I do not like a discretionary feature in this area. I feel it operates to discourage the kind of person who does not abuse sick leave. The exercise of discretion by the deputy head creates a potential incentive to use sick leave. I was not being facetious when I said I think this could be one of the areas which would be quite appropriate for collective bargaining in staff associations. ^é

The CHAIRMAN: I am sure Mr. Henderson in his follow-up report next year will report back to us in respect of what has developed out of this.

Is there anything else, Mr. Henderson?

Mr. WINCH: I seem to remember we were most interested in hearing from Dr. Davidson concerning his views with regard to how far the Auditor General's department can go in drawing attention of department heads, or of this committee through his report, to cases where he thinks there may have been a waste of money or inefficiency.

Mr. HENDERSON: I think Mr. Winch is referring to paragraph 11, having to do with the findings of the royal commission on government organization.

Mr. WINCH: I believe this was held over so that we might have the views of Dr. Davidson.

The CHAIRMAN: That is right. We stood this paragraph.

Mr. WINCH: We do not want to feel that the auditing staff is stepping into the field of the treasury board where it has no business; but at the same time, if the Auditor General feels there is a degree of inefficiency he has the responsibility to bring this up.

Mr. HENDERSON: It is paragraph 11 on page 8 which we discussed last Tuesday.

The CHAIRMAN: Yes. Would you comment on that, Mr. Henderson, and then we will have Dr. Davidson's views.

Mr. HENDERSON: In this section of my report I set down my conception of my responsibility in connection with waste and extravagance, and my duty as Auditor General to study reports prepared by or for the management of departments and agencies directed towards the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations.

I said that to the extent such reports correctly indicate where and how savings can be made, I feel the Auditor General has a responsibility to parliament to follow through and ascertain what action has been or will be taken toward achieving such savings, or if no action is taken, to inquire why.

I went on further to point out that with regard to the particular recommendations made in any such report—and in this instance I referred to those made by the royal commission on government organization—the decision in respect of the extent to which such recommendations are to be implemented must be at all times and is the responsibility of management. I then concluded by saying that it is not my intention to express views at this time on any of the individual recommendations, but with regard to the commissioners' findings—that is to say, the disclosures in this case in the 24 reports in the five volumes—I believe it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with not only in the interest of improving efficiency, but because of the substantial savings of public funds which could result. I went on to say that I shall consider it to be my responsibility to follow through on the action taken on such findings of the royal commission on government organization, and to report thereon to the House of Commons.

Last Tuesday we had a discussion about this to which Mr. Winch and Mr. Muir were good enough to speak and the matter was left for the purpose of inviting any comment on the subject from Dr. Davidson today.

The CHAIRMAN: I think that is right. Dr. Davidson, what is your view on this?

Mr. DAVIDSON: Mr. Chairman, I think it would be presumptuous of me to even express an opinion with regard to what are the duties and responsibilities of the Auditor General. The Auditor General is a servant of parliament; his statutory duties are laid down in the Financial Administration Act. His statutory duties and responsibilities can be defined with relative ease by taking a look at the provisions of the Financial Administration Act, which sets out in sections 65 and following the duties and responsibilities which, by statute, are placed upon the office of the Auditor General.

Now, certainly that is the hard core of the Auditor General's duties and responsibilities. I suspect that beyond that hard core, the concept which any Auditor General has of his further duties and responsibilities in the non-statutory field would vary according to the personality, make-up and outlook of any given Auditor General from time to time, and also, I have no doubt, it will vary also from time to time with the same Auditor General, depending on the circumstances which he finds himself facing in his auditing of government accounts.

To illustrate what I mean,—and I would invite the attention of the members of this committee to this example,—I would refer to the circumstances of 1958 when special warrants were used and \$15,000 was left untouched in the special operating account of the national gallery, and the Auditor General of that date had no observation to make in respect of it, and almost no observation to make about the procedures that were used by the treasury board and the government at that time in the use of special warrants generally.

In contrast to that, six years later under a different Auditor General and under circumstances which are remarkably similar, the date of the dissolution being only seven days different, the present Auditor General felt constrained to make observation about certain procedures used in respect of special warrants, including the use or non-use of the special operating account of the national gallery, which we have been discussing this evening.

I do not think there is any way of judging beyond the hard core, which consists of the statutory responsibilities of the Auditor General as set out in the law, what any given Auditor General at any given time should be expected to report on, should be required to report on or should be prevented from reporting on. This is an area of judgment which the Auditor General has to exercise on his own responsibility, in respect of which he will no doubt seek the guidance either from his master, parliament, or from a select committee representing his master in the form of this committee, as indeed he has been doing from time to time.

There are just two things I would add to that rather general observation. I think Mr. Henderson will not mind my saying that he had the courtesy, before writing these words contained in paragraph 11, to come to see me. I was at that time head of the bureau of government organization in the privy council office, and he discussed these paragraphs with me. I offered not the slightest criticism or difference in point of view regarding the validity of the opinions expressed in this paragraph. I made only one comment and I think Mr. Henderson will bear me out in this regard. I did say to him in respect of paragraph 11, which states: "By the same token it is the duty of the Auditor General to study reports, etc".—I thought it would be a more accurate representation of the situation if these words were to read, "By the same token it is my view the duty of the Auditor General to study reports etc."

I think this concept of the role of the Auditor General, as set out in this part of paragraph 11, is a concept which lies in the area of judgment and opinion; it is not clearly part of the statutory role of the Auditor General, authorized by law, as I read the law, to take upon himself, as his duty and responsibility, the duties and responsibilities which are set out here. This is in my judgment a perfectly legitimate and consistent concept of the role of the Auditor General but it is one which extends beyond the realm of the statutory authority and into the realm of opinion. It is for that reason I took the opportunity at the time I did of expressing my opinion to Mr. Henderson, that the statement in paragraph 11 of his report would be more accurately stated if it were made clear this was his view of his concept, instead of stating in quite such categorical terms, as being a statement of fact, that it is the duty of the Auditor General.

May I just go on to say one final thing, Mr. Chairman?

The CHAIRMAN: Surely.

Mr. DAVIDSON: There is a problem which presents itself. The Auditor General is a servant of parliament and it is his duty to report after the damage has been done in respect of things that have been done wrong. It seem to me there is a constant danger of an officer placed in this position, moving into the management area by advice to government, of which he is not a servant, because he is a servant of parliament, stating how it should manage its affairs, in ways which under certain circumstances could involve this officer in joint responsibility with the government for the decisions which the government takes upon his advice.

I believe that this is in effect what Mr. Henderson himself is referring to here when he says he takes no responsibility,—and I cannot find his exact words, but I am sure I have the gist of it here,—for decisions taken with respect to

such recommendations by the government. It seems to me this indicates Mr. Henderson is touching upon the same point I am endeavouring to touch upon. I am trying to make a distinction between the responsibilities of the Auditor General to parliament, in reporting upon actions of the government, which he must do as his statutory responsibility, and that situation which would develop if an officer in his position were to become too closely associated with, and to that extent responsible for, any part of the actions of the government on which he is obliged to report to parliament.

I do not know whether I am making this distinction clear or not, but I think there is a problem area here which has to be resolved in only one way, and that is by the judgment of the Auditor General himself, supported by the guidance which he can receive from this committee or from parliament, of which he is a servant, regarding how far he can usefully serve parliament by involving himself in areas relating to management decisions, which are not his statutory responsibility, but in respect of which, by his helpful advice to management he may avert circumstances on which he would be obliged later to report adversely to parliament.

Mr. HALES: Mr. Chairman, along this line of thought, I think a man in business hires a professional auditor, to audit his books, who is obliged to give a profit and loss statement only, but who goes beyond that point and shows the businessman where he has made mistakes, where he has been extravagant, or where he should curtail expenditures. I think a man in business will think more of such an auditor for that service rendered than one who does not render such a service. I think the same principle can be applied to an audit of the governments books. However, I do realize that when business becomes really big an auditor is hired to prepare a profit and loss statement, and if that statement indicates something other than a desirable situation, a consultant management firm is hired to find out where the weaknesses lie. I think that analogy applies in respect of the circumstances outlined by Mr. Davidson.

The CHAIRMAN: Perhaps I might ask Dr. Davidson one question. I should like to have some clarification in respect of one point which was touched upon during his discussion of this item.

Dr. Davidson, you referred to the statutory duties of the Auditor General. We find at page 1 of the Auditor General's report a list of his duties as outlined in section 70 (1) of the Financial Administration Act, and the very interesting statement at the end of those listed duties reading as follows:

...and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

I suppose this illustrates your point, that it is entirely a consideration of the Auditor General himself what he feels should be brought to the attention of the house.

In my own profession we have a saying that the measure of justice corresponds to the length of the lord chancellor's foot, which means that one could take the same set of facts before different courts and different judges would hand down different decisions. This would be the particular section you had in mind when indicating what cases in the meaning of this subsection should be brought to the attention of the House of Commons by the Auditor General himself in his particular examination. This is what you have in mind, I presume.

Mr. DAVIDSON: This and section 67.

In respect of section 70, although I am no lawyer, my attention is drawn to the fact that it is the word "case" that is used and not the word "matter". I have no difficulty in accepting the interpretation of section 70 (1), particularly these last two lines, which clearly authorizes and requires the Auditor General

to report to the House of Commons any case other than the cases that are detailed in A, B, C, D, E and F, which attracts his attention for any reason. This, however, is not the area that we are discussing now, particularly in respect of the kind of issues that arise in section 11, where we are discussing management advice to the government, and the principles that are involved in the decisions that government has to make, the extent to which it is going to implement the decisions of the royal commission—considering ways and means by which a better organization or administrative approach to a problem would save the government money through a more efficient practice, and so on. Here we are not dealing with any individual case; we are dealing with principles and issues, management practices, the kind of advice that oftentimes in the business world is obtained through the services of management consultants and oftentimes also through chartered accountants who do the auditing of the books. It is in this area that I think questions of judgment are raised which the Auditor General obviously has to resolve in his own way, depending on how far he feels it is right and proper for him to move into the area of counselling the government, which is one client, in respect of how it should handle its affairs, when his statutory duty is to report on the actions of government to another client, which is the parliament of Canada.

Mr. HENDERSON: Mr. Chairman, may I address my reply in this regard to Dr. Davidson and to the members of the committee. As you no doubt know, the 24 reports of this particular royal commission contained a great many cases illustrating waste. They refer to procedures which are outdated and which, if changed, could save public money; they refer to uneconomical and unbusiness-like operations; they suggest how public money could be saved, and they deal with outright wasteful practices. I am not referring to their recommendations; they are not my business. But, I am referring to the Royal Commission's disclosures or findings of these instances assuming these instances, are proven and do in fact exist. There are many cases as Dr. Davidson and I know, where the facts are not correctly stated by the Commission but, at the same time, there are many which are correctly stated. What I am saying to you is that I conceive it to be my responsibility to take note of these particular findings disclosing cases which are wasteful or extravagant and to the extent that I see fit ask the executive departments "what are you doing about these?" And, if they are not doing anything about these things, ask "do you plan to do something and if not, why not?" And to the extent that I believe that the resulting situation should be brought to your attention I consider it to be my responsibility to do so. You have asked me to set forth for you in my reports all cases of non-productive expenditures and waste which my officers and I encounter in our audit work. There are numerous comments in my reports indicating unbusiness-like practices, uneconomical operations, wasteful practices and, as the watchdog of parliament, charged with reporting on the accounts to you, I find it very difficult to ignore a set of 24 reports which contain a considerable array of these very things.

I do not intend and never have sought to tell the government what to do. I do not assume the role of a management consultant. But, if they see fit to ask my advice—and I might say that a great many of the departments come to us and ask us questions—we are happy in cases where we feel we can help them to answer their questions. But, we never intrude unless specifically requested to do so and such occasions are rare indeed. To me, this is very much, as Mr. Hales has said, the constructive and modern approach to auditing work. It is the way the large professional auditing firms operate. I feel I would be doing less than my duty if I did not raise these matters and set them down in this form in my reports to you. Therefore, any expressions that you can give me in respect of this particular concept are very helpful to me. I am grateful

for the way in which Dr. Davidson has outlined his point of view. I find it most helpful and very fair. Believe me, I am not seeking any more work than I have; I have quite enough. But I do conceive it is my responsibility to take a stand in respect of things that I believe I am expected to do for you.

The CHAIRMAN: Are there any questions on this? We have had a very good discussion. If not, are there any further matters, Mr. Henderson?

Mr. HENDERSON: We have not touched on the estimates.

The CHAIRMAN: Yes. You are referring to the form of the estimates. This is the other item.

Mr. HENDERSON: The remaining item has to do with paragraph 9, the form and content of the estimates.

The members of the committee will recall how the committee considered this matter when it was studying a somewhat similar comment in my 1962 report last December when, in the committee's third report, 1963, it made three immediate recommendations. The first recommendation had to do with the adoption of the revised vote pattern which had been proposed by the treasury board for introduction into the main estimates 1964-65, subject to certain improvements I had suggested to officials of the treasury board during the meetings of Mr. Wahn's subcommittee.

The second recommendation was the inclusion of supporting financial information of crown corporations and other public instrumentalities in the details of services for the purpose of providing better information to the members and to the public in respect of the nature of the fiscal requirements of the crown corporations and other agencies requiring financing by parliamentary appropriations.

Now, the nature of what we had in mind here is described under paragraph 9 and would consist of both operating and capital budgets of crown corporations.

The third recommendation was the presentation of additional information in the estimates concerning the staff of all government departments and the crown corporations and other public instrumentalities that I have referred to.

In making these recommendations, the committee in its third report in 1963, recommended the adoption of as many of these three improvements as would be practicable in the main estimates of 1964-65.

When I presented my follow-up report to the committee, which we discussed on May 26 last, I was able to tell you that the first of these major improvements, namely the revised vote pattern, had been adopted by the treasury board in the presentation of its main estimates for 1964-65. However, the supplementary financial information regarding crown corporations and other public instrumentalities and the presentation of additional staff information in the estimates were not given in the main estimates for 1964-65. When this matter was discussed in the subcommittee the secretary of the treasury board pointed out that it might not be practicable to include this particular information in these estimates because of the time schedule with which he was faced. He said that he would wish to discuss the disclosure of this information with the crown corporations and other public instrumentalities and at a later meeting of the subcommittee reported on the extent to which he had been able to do this. He had not seen them all, but he had seen a number. He stated that generally speaking the proposal appeared practicable enough and my officers and I were left with the impression that this information would be given when the next set of estimates was prepared, namely 1965-66.

I have had a brief talk with Dr. Davidson concerning this situation, so perhaps he can add something further now on this point, which was the one we left over from our last meeting.

Mr. DAVIDSON: Could I first of all deal with the second of the two points that Mr. Henderson referred to as being the recommendations of the committee in its report of Thursday, December 19, 1963 which had not been implemented in the 1964-65 estimates? I think I am correct in saying that so far as the additional presentation in the estimates concerning the staff of crown corporations and other public instrumentalities is concerned, it is the intention to provide for that in the estimates for 1965-66. With that we will have taken care of two of the three recommendations of the committee.

I confess quite frankly that I am in some difficulty and confusion about the other recommendation, partly because I am not at all clear on what the commitment of the previous secretary of the treasury board was. Consequently all that I was able to say to Mr. Henderson in my conversation with him on the telephone when he called me about this, was that whatever was the commitment that Mr. Steele had made, I give the committee my word that that commitment will be carried out. However, I have to find out what that commitment was, and all the witnesses present at that meeting are not entirely unanimous on what the extent of the commitment was. But above and beyond that I think I need to know more clearly than I know at the present time from the committee what it really means when it says that it wants the inclusion of supporting financial information of crown corporations and other public instrumentalities in details of services.

I need to know in respect of what crown corporations this reference is made, and I need to know something of what supporting detail is required in respect of the operating and capital budgets of these crown corporations, that it is the wish of the committee to have included in the blue book of estimates. For example, to take the most extreme example, there is an item voted each year in the supplementary estimates at the end of the year to meet the deficit on the Canadian National Railways. How do I interpret this recommendation with respect to the operating and the capital budgets of the C.N.R.? Is this intended to apply to the C.N.R. at all? If it is, then does it apply equally to all of the other crown corporations? If it does not apply to the C.N.R., what guidance can the committee give me on which of the crown corporations it had reference to when it made its recommendation? I think I need to know also and to have some guidance from the committee on just what it wants in the way of supporting financial information; does it want the breakdown in terms of the details of services such as is provided for other ordinary votes that are being made to departments where a prescribed amount of detail of the service is given?

I have here a list, for example, of the crown corporations provision for which is included in the main estimates 1964-65. For some or all of these I take it the committee would wish to have more supporting financial information than is given in the 1964-65 estimates—Atomic Energy of Canada Limited, Canadian Broadcasting Corporation, Defence Construction Limited, Central Mortgage and Housing Corporation, the Canadian Corporation for the 1967 World Exhibition, and so on. There are a number of others such as the national harbours board, the St. Lawrence seaway authority, where advances are given for certain purposes, or certain expenses are provided for specific things such as specified canals in the case of the St. Lawrence seaway. In some situations, Air Canada is an example of this, and Central Mortgage and Housing Corporation is another example,—there may be one year when an appropriation is required but is not required the next year. This would make it difficult to provide the kind of year to year continuity that I think the members of parliament have come to expect in respect of the supporting financial information that is usually given in the details of the estimates.

I outline this, Mr. Chairman, to indicate the reasons why I feel that I do need to have some additional guidance from the committee on what specifically it had in mind so that I can try to shape my recommendations to the treasury board in respect of the changes to meet this so that they will have a chance of meeting the requirements of the committee.

The CHAIRMAN: Is there any discussion? Are there any comments?

Mr. HALES: I think the committee's thinking on this was that a corporation should not be looked upon any differently from any department of government. They come to parliament for money, and therefore, as members of parliament, we should be entitled to know what they want it for. They should submit their estimates the same as any other department of government. I think it was along this line of thinking that the committee suggested that they be incorporated in the estimates.

Dr. Davidson, you did bring up some things that we did not think about. You were saying that some of these corporations some years request money and other years do not, but in order to have continuity I think they would have to bring the estimates every year whether they were asking for money or not.

Mr. WINCH: Or a one dollar vote.

The CHAIRMAN: Would it be possible in this connection for you and Mr. Henderson to be in communication on this? It does appear that, following your discussion, there may be some points where you feel that clarification is required. Perhaps we could have a memorandum from you and perhaps to that extent the committee could attempt to provide the guidance and clarification on those issues where you did feel that there was not that degree of precision which you thought would be desirable.

Mr. DAVIDSON: I would be glad to follow that suggestion. Perhaps I should add one thing, that I have not personally approached any of the crown corporations yet, first of all, because I am not entirely clear on which ones it is desired that I should approach, and second, because I am not quite sure what kind of information I will be discussing with them when I do approach them. If Mr. Henderson and I could clear up some of the points I outlined here, such as what crown corporations we are talking about, to what extent and what kind of additional information is involved—those are the two principal ones—and what happens about the corporation that is in and out again from year to year, that would be very helpful.

Mr. HENDERSON: The broad general approach is contained on page seven where I say that I have been recommending since 1960:

- (c) including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving parliament an opportunity to consider broad policies associated with their operations);

For example, there is one page in the estimates book showing the money required by C.B.C. and the global figure of \$80 million is shown, and nothing else. I think that the budget that the C.B.C. prepares supporting that \$80 million figure would have a useful place in the estimate detail. It is a modest statement showing about an eight or nine figure breakdown and it would have a logical place in the estimate detail. So that when you are asked to pass \$80 million you would have some idea on what it is composed of. That budget has to be made public anyway pursuant to the Broadcasting Act of 1958. All they would have to do there is to make it public at the time they put in the estimates to the House of Commons, and show it in the detail of the estimates, because it seems to me unrealistic that the members be asked to approve a figure of that size without knowing what makes it up. Dr. Davidson touched on something which would

be rather difficult to show. He cited the case of the Canadian National Railways deficit. I would hope in the supplementary estimates that there might be some detail indicating what gave rise to that deficit as compared perhaps with the previous year or something like that. It should be quite possible to prepare it. Certainly there would be no problem in preparing that in the case of a large corporation. Certainly a chartered bank, for example, would not make a loan without asking for such detail.

The CHAIRMAN: Mr. Hales, did you have a question on this?

Mr. HALES: No, but I have a comment. By the same token Polymer, for example, makes \$12 million profit. That is the other side of the ledger as compared with Canadian National Railways. We should know how they make it. Perhaps they should make \$24 million, or maybe they are making too much.

Mr. HENDERSON: These are wholly owned creatures of the crown and, like any other stockholders, I think you are entitled to know how your creations are doing. Of course, all the companies file annual reports. There is no question about that, but they come later on. Polymer does not come for any money, but at the same time there should be some arrangement whereby you can discuss the operations of that corporation at regular intervals.

Mr. WINCH: Even if they do not come for money there should be a vote so the operations can be discussed. So far as the province of British Columbia is concerned, there is always a vote for \$1 in order to give the members an opportunity to discuss the operations of the company. There is always a \$1 vote for anything for which the legislature is responsible. It would be a proper practice here for all crown corporations to have at least a vote of \$1 in order for the operations to come before parliament.

Mr. FRANCIS: Dr. Davidson has asked one or two questions. The answer to the first question with regard to which crown corporation is simple; the answer is all of them.

It is not simple to select just which approach should be taken. I agree with Mr. Winch that there should be an item governing all government owned operations, all the different shades and varieties of crown corporations. There should be some item in the estimates presented before parliament so there can be debate upon the items and opportunity for comment and review. I personally feel this is an area that has to be looked into. I am very much concerned with basic policy problems, even in an operation doing so well as Polymer. I understand from what I read that Polymer is going into a number of foreign countries, and this is investment of Canadian public funds in economies of many countries of the world. This is a basic principle in which at some point guidelines must be set. I hope Dr. Davidson will not feel there is any restrictions imposed in looking at this area.

The CHAIRMAN: I made the suggestion that these conversations will continue between Mr. Henderson and Dr. Davidson so that before we make our report in due course to the House of Commons we will know if they have reached an understanding, and if they have not we can always consider any further request for additional information.

Mr. WINCH: I suggest we name them as a subcommittee.

The CHAIRMAN: I think this has been helpful, Dr. Davidson. I think possibly you and Mr. Henderson can resume discussions. If you feel you require something further from us, I am sure we will be glad to give you any additional assistance and guidance.

Is there anything further, Mr. Henderson?

Mr. HENDERSON: That completes the items we wanted to consider this evening.

Mr. WINCH: I think we have done pretty well today.

The CHAIRMAN: May I express to Dr. Davidson and to Mr. Henderson and his staff, on behalf of the committee, our appreciation for their attendance beyond the call of duty. This is not an educational matter for which they receive allowances in lieu of salary, and we are most grateful to them. May I also thank members of the committee for coming here and enabling us to give Dr. Davidson and Mr. Henderson our views on the matters presented for our attention.

May I remind you that the Canadian Broadcasting Corporation officials will be with us on Thursday and on the following Tuesday. We are hoping we will have multiple meetings. We have suggested meetings at 9.30 a.m., 3.30 p.m. and 8.00 p.m. on those two days. This is just a suggestion for the committee to consider.

The meeting is adjourned.

APPENDIX I

(The following information supplied by the Auditor General in response to inquiries at previous sittings).

1963 Report of the Auditor General

Para. 40—Return on Investments

Other loans and investments \$12,565,000

Interest earned

Canadian Overseas Telecommunication Corporation	\$1,971,301
National Capital Commission	1,776,142
Northern Canada Power Commission	1,695,542
Loan to India	1,055,332
Province of New Brunswick, Beechwood Power Project	754,608
Sinking Fund and other investments held for retirement of unmatured debt	712,403
Contracts of Insurance under the Export Credits Insurance Act, 1944	578,457
Interest on balances receivable under agreements of sale of crown assets	508,610
British Columbia treasury bills	268,215
Dominion Coal Company Limited	230,907
Manitoba treasury bills	228,421
Interest on mortgages arranged by Central Mortgage and Housing Corporation (Department of National Defence)	222,938
Interest on loans to Atomic Energy of Canada Limited	216,809
Town of Oromocto, New Brunswick	212,892
Alberta treasury bills	125,062
Yukon Territory	106,308
Interest on securities received from the Province of Saskatchewan in respect of its share of the South Saskatchewan river project	94,988
Saskatchewan treasury bills	88,749
Loan to Ceylon	71,990
Town of Oromocto Development Corporation	62,606
Interest on debentures—City of Montreal, with respect to the Atwater Avenue Tunnel	62,500

Northwest Territories	60,474	
Province of Quebec—debt account	58,944	
Hamilton Harbour Commissioners	50,219	
Railway Subsidy Act agreements	51,815	
Interest for the calendar year 1962 from the Province of Manitoba on capital expenditures re. Lac Seul and Lake of the Woods Storage Projects	45,124	
Great West Coal Company Limited	43,536	
Interest on United Nations bonds	36,191	
Interest on debentures—City of Montreal with re- spect to St. Remi Tunnel	35,671	
Ottawa civil service recreational association	29,246	
Municipal Improvements Assistance Act	28,462	
Avon Coal Company Limited	25,390	
Interest on sale of irrigated land	24,904	
Interest on Crop Insurance Loan—Province of Mani- toba	23,958	
D. W. and R. A. Mills Limited	22,982	
Interest on loans to Indians	22,813	
Land and timber purchased for Indians (Interest) ..	11,688	
Crows Nest Pass Coal Company Limited	11,455	
Interest on loans to Eskimos	10,766	
Interest on loans to City of Vancouver with respect to Domestic Terminal Building at Vancouver air- port	8,565	
Interest on loans to employees	8,447	
Interest on debentures—The Corporation of the Township of Toronto	7,954	
Interest on loans to Yukon Coal Company Limited ..	7,379	
Interest on loans to Canadian National Railways with respect to Yarmouth, Nova Scotia and Bar Harbor, Maine ferry services	7,000	
Bras D'Or Coal Company	5,007	
Sundry	5,882	
Total interest earned		\$11,688,652

Profits/Dividends

Net profit from sale of sealskins transferred from Fisheries revolving fund	488,855	
Profit transferred from Industrial and Stores account —Penitentiaries (manufactured products)	165,742	
Part of the accumulated surplus of Crown Assets Disposal Corporation	135,223	
Profit resulting from the operating of Revolving Fund—Manufacture of Remembrance Day poppies ..	24,338	
Net profit on the operation of the Agriculture re- volving fund for the fiscal year 1962-63	21,694	
Net profit transferred from Royal Canadian Mounted Police revolving fund	9,653	
Sundry	30,843	
Total profits/dividends		876,348

Total of item "Other loans and investments"	\$12,565,000
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OIL AND GAS EXPLORATORY PERMITS

Permits are issued under authority of the Canada Oil and Gas Land Regulations (full description: Regulations respecting the administration and disposition of oil and gas belonging to Her Majesty in right of Canada under all lands forming part of Canada but not within any province), which were authorized by Order in Council P.C. 1961-797 of June 6, 1961, as amended.

The Regulations were issued pursuant to the Territorial Lands Act and the Public Lands Grants Act. The latter statute, R.S. 224, as amended in 1959, c. 52, is the one of interest in connection with the point raised by Mr. Winch.

Section 4 of the Public Lands Grants Act provides, in part, that the Governor in Council may

- (a) authorize the sale, lease or other disposition of any public lands that are not required for public purposes and the sale, lease or other disposition of which there is no other provision in the law; and
- (b) make regulations authorizing the Minister having the control, management and administration of any such public lands to sell, lease or otherwise dispose of them, subject to such limitations and conditions as the Governor in Council may prescribe.

Section 2 (c) of the Act defines "public lands" as lands belonging to Her Majesty in right of Canada and includes lands of which the Government of Canada has power to dispose.

The term "Canada lands" is used in the Regulations, and the term is interpreted therein as meaning

- "(i) territorial lands as defined in the Territorial Lands Act, and
- (ii) public lands as defined in the Public Lands Grants Act for the sale, lease or other disposition of which there is no provision in the law, and includes land under water."

The conditions under which permits may be issued, the periods of validity and financial and other requirements are set out in sections 30 to 54 inclusive, and associated schedules, of the Regulations, together with Oil and Gas Land Order No. 1-1962, issued by the Minister of Northern Affairs and National Resources in September 1962.

To May 20, 1964, the Department of Northern Affairs and National Resources had issued 942 "water" exploratory permits. At that time 876 were still in good standing. Of these 617 related to East Coast areas, 214 to West Coast areas, and the balance of 45 to northern waters. The fee for an exploratory permit being \$250, in accordance with the Regulations, total revenues for the 942 water exploratory permits issued to date have been \$235,500. Only one of the 33 permits issued during the 1962-63 fiscal year, which was a particularly inactive year in this respect, concerned a West Coast area, therefore the revenue was only \$250 received from a private individual.

Because of representations made by the Province of British Columbia, the sovereignty of Canada, rather than the provinces concerned, in respect of the exploration and exploitation of the gas and oil resources of the submarine areas adjacent to such provinces is currently under consideration.

Appendix 2

(The following information supplied by the Auditor General in response to inquiry at previous sitting).

1963 Report of the Auditor General

Para. 43—Other non-tax revenues—Miscellaneous, \$16,982,000

Operation of the Royal Canadian Mint	\$ 9,404,342
Customs and excise seizures	865,260
Central Mortgage and Housing Corporation—net profits under the Housing Act	773,695
Refund of allowances paid on behalf of the United Nations Emergency Force	587,787
Export Credits Insurance Corporation, excess of premiums over amount required to meet expenses and overhead arising out of insurance contracts entered into under section 21 of the Export Credits Insurance Act	560,796
Fines and forfeitures (all departments)	457,303
Amount of Government annuities account in excess of actuarial value of outstanding contracts	417,300
Vehicle accident and other claims for damages	327,542
Contributions by the Province of Nova Scotia under agreement between the Province and the Federal Government towards the cost of subventions on coal moved from Nova Scotia to Ontario	296,467
Premium on foreign exchange transactions (D.N.D.) ..	267,795
Pensions contributions, Defence Services Pension Continuation Act	235,633
Royalties on sales (DRB)	225,000
Bankruptcy Act, levies	212,407
Canada's share of operating revenue of the Peace Bridge, Fort Erie, Ontario	200,000
Insurance re. fire loss (DRB)	175,000
Refund of excess profits, the de Havilland Aircraft Co. of Canada	120,000
Transfers from OUTSTANDING IMPREST ACCOUNT CHEQUES account and from UNCLAIMED CHEQUES account of amounts unclaimed or outstanding for 10 years or more	97,858
Forfeiture of Candidates election deposits	92,600
Officers pension contributions (R.C.M.P.)	84,518
Road subsidies (Indian Affairs)	80,839
Customs drawback re. NATO countries	78,788
Combines prosecutions	75,715
Fish nets (Indian Affairs)	68,564
Repayment for damages to barrack, camp and hospital equipment	67,484
Purchase of release	66,017
Forfeiture of guarantee deposits in respect of oil and gas rights	60,733
Commissions on sales of publications issued by International Organizations of which Canada is a member nation	44,510
Dormant liabilities transferred from Government Annuities account	43,264

Receipts of compensation monies received under the provisions of section 22 of the Pension Act. (D.V.A.)	22,358
Commission on provincial motor and drivers' licenses ..	18,114
R. L. and R. Blackburn for steam supplied to the Roxborough Apartments, Ottawa	17,851
Fur trapping (Indian Affairs)	15,026
Atomic Energy of Canada Ltd. for steam and electricity supplied to buildings at Tunney's Pasture, Ottawa	14,677
Perini Ltd. for cost of electric power and temporary heat supplied to the contractor during the construction of the N.R.C. Communication Building, Riverside Drive	14,548
Handicraft (Indian Affairs)	13,818
Refund of gasoline tax	10,586
Canadian International Paper Company for guaranteed basic dockage at Dalhousie N.B.	10,000
Placement (Indian Affairs)	9,163
Unclaimed balances which have been received from the Bank of Canada in respect of chartered banks	7,629
Corporation of the City of Ottawa contribution towards overhead costs for site development at Confederation Heights	7,617
Commissions on telephones	7,221
Hospital clothing (Indian Affairs)	7,108
Interest on student veterans' loans	7,082
Reimbursement of the Canadian Government's loan to the administrative part of Intergovernmental Committee for European Migration	6,702
Law costs	5,417
Farm debts including seeds	5,337
Payment by the Prime Minister, as required by section 5 of the Prime Minister's Residence Act Chap. 216 R.S.	5,000
Sundry	789,529
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	<u>\$16,982,000</u>

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General relating to the Canadian
Broadcasting Corporation

THURSDAY, JULY 2, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and *From the Canadian Broadcasting Corporation:* Messrs. J. A. Ouimet, President, and V. F. Davies, Comptroller.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

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Vice-Chairman: Mr. P. Tardif

and Messrs.

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Drouin,	McLean (<i>Charlotte</i>),	Southam,
Dubé,	McMillan,	Stefanson,
Fane,	McNulty,	² Stewart,
Fisher,	Muir (<i>Lisgar</i>),	Tucker,
Forbes,	Nowlan,	Valade,
Francis,	O'Keefe,	Wahn,
Frenette,	Pigeon,	Whelan,
Gendron,	Pilon,	Winch—50.
Grafftey,	Regan,	

M. Slack,
Clerk of the Committee.

¹ Replaced Mr. Rochon after evening sitting of June 30.

² Replaced Mr. Richard before evening sitting of July 2.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

Tuesday, June 30, 1964.

Ordered,—That the name of Mr. Choquette be substituted for that of Mr. Rochon on the Standing Committee on Public Accounts.

THURSDAY, July 2, 1964.

Ordered,—That the name of Mr. Stewart be substituted for that of Mr. Richard on the Standing Committee on Public Accounts.

Attest.

LEON-J. RAYMOND,

Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, July 2, 1964.

(13)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Fane, Fisher, Forbes, Francis, Gendron, Grafftey, Gray, Hales, Harkness, Mandziuk, O'Keefe, Pilon, Regan, Ryan, Southam, Stefanson, Tardif, Tucker, Winch (22).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; *From the Canadian Broadcasting Corporation:* Messrs. J. A. Ouimet, President; V. F. Davies, Comptroller; R. C. Fraser, Vice-President, Corporate Affairs and A. Watkiss, Assistant Director Accounting; and Messrs. Stokes and Laroche of the Auditor General's office.

The Chairman welcomed three new members to the Committee.

The Clerk of the Committee read the resolution adopted by the Committee on June 18 calling for the appearance of the officials of the Canadian Broadcasting Corporation.

The Chairman introduced Mr. Ouimet, who in turn introduced his officials, Messrs. Davies, Fraser and Watkiss. Mr. Ouimet then made a brief statement.

Mr. Henderson reviewed his 1962 long form report to the Board of Directors of the Canadian Broadcasting Corporation and dealt with sections under headings of "Results of Operations" and "Balance Sheet".

Mr. Henderson then reviewed the first three pages of his 1963 long form report to the Canadian Broadcasting Corporation and was questioned thereon.

Messrs. Ouimet and Davies were also questioned and supplied additional information.

The Committee agreed that the 1962 and 1963 long form reports of the Auditor General be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 1*).

The questioning of Messrs. Ouimet and Henderson stil continuing, at 10.55 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(14)

The Committee resumed at 3.35 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Dubé, Fane, Fisher, Forbes, Francis, Gendron, Harkness, McLean (*Charlotte*), Richard, Ryan, Southam, Stefanson, Tardif, Wahn, Whelan, Winch (19).

In attendance: Same as at morning sitting.

Mr. Ouimet tabled two returns to inquiries by Mr. Francis at morning sitting, listing "Programs not available for advertising" and "Unacceptable Accounts". The Committee agreed that these be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 2*).

Mr. Ouimet clarified an answer he gave at the morning sitting relating to an incentive system.

Mr. Henderson then continued his review of his 1963 long report to the Canadian Broadcasting Corporation dealing with income and expenses.

Messrs. Henderson, Ouimet and Davies were questioned on various matters including budget and Glassco Commission recommendations, and supplied additional information thereon.

The examination of Messrs. Ouimet, Henderson and Davies still continuing, at 5.15 p.m., the Committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(15)

The Committee resumed at 8.05 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Fisher, Forbes, Francis, Gendron, Grafftey, Grégoire, Harkness, Lessard (*Saint-Henri*), Loiselle, O'Keefe, Pilon, Rinfret, Rock, Ryan, Southam, Stefanson, Stewart, Tardif, Wahn, Whelan, Winch (26).

In attendance: (same as at previous sittings this day).

The Committee resumed the examination of Messrs. Henderson, Ouimet and Davies on the long form reports of the Auditor General.

The questioning of the witnesses still continuing, at 10.00 p.m., the Committee adjourned until 9.30 a.m., Tuesday, July 7, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, July 2, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. I thank you for your prompt attendance after the holiday.

I was going to welcome three new members but I do not see them here yet. They have been added to our roster, namely, Messrs. Grégoire, Choquette and Fisher. I am sure that before our proceedings are finished we will have the benefit of their wisdom in their discussions with us.

Today, according to the schedule which was established and agreed to by the committee earlier, we have to discuss the financial statements of the operations of the Canadian Broadcasting Corporation, and possibly I will ask the clerk to read the orders of reference with respect to this, as set out in the motion which the committee accepted on June 18.

The CLERK OF THE COMMITTEE: This is an extract from the minutes of proceedings of Thursday, June 18, 1964, on a motion of Mr. Harkness, seconded by Mr. Hales:

That the public accounts committee call officials of the C.B.C. before the committee in order to examine into the accounts of the corporation including the extent to which the recommendations of the Auditor General and the Glassco commission have been implemented.

The CHAIRMAN: Thank you. We should add to that the fact that we are engaged in dealing with the Auditor General's report on the public accounts for the fiscal years ended March 31, 1962 and March 31, 1963. This gives us a framework for our inquiry which is, in this particular instance, not a broadcasting inquiry but an inquiry into the financial and organizational aspects of the C.B.C. within the framework of these terms of reference.

As is our usual practice, we have been fortunate in having Mr. Ouimet—whom I will introduce to you in a few moments—with some of his officials here. We will carry on our usual practice of having statements and comments both by Mr. Henderson and his staff and by the officials of the C.B.C. together so that members will have this very fine opportunity of hearing all aspects and all phases of the discussions into which we are going to enter.

As usual, while all members of the committee have the right to make statements and comments, I would hope that in the limited time within which this discussion will take place we will try, as far as possible, to limit ourselves to the asking of questions and eliciting information which we require when we come in due course to make up our report. I say this because of our schedule as laid out and because of the commitments of Mr. Ouimet and his officials we are limited to today and Tuesday at this particular time. It may be that if we are not completed we may have to consider something later on in the fall. At the moment I would hope that within the framework of these two days and on the basis of these three meetings on each day, if the committee so agrees, we might complete all the inquiries we need in order to frame a suitable report. I would therefore hope that we would concentrate on eliciting information by means of questioning as far as is possible.

Before I call on Mr. Henderson to open up the discussion, I would like to introduce Mr. Alphonse Ouimet who, I think, is known to all of you, the President of the Canadian Broadcasting Corporation who is no stranger, as he assures me, to parliamentary committees. Most of us have had an opportunity of appearing in committees before which he has presented himself, and I would like to introduce him to the committee and to ask him to make a brief statement and introduce the officials he has brought with him who will be available for questioning from time to time by the members of the committee. Having done this, I will then call on Mr. Henderson to initiate the discussion.

Mr. J. ALPHONSE OUIMET (*President, Canadian Broadcasting Corporation*): Mr. Chairman, may I first introduce the officials of the corporation who have come with me to this committee meeting? First, our Comptroller who is the principal financial officer of the corporation, Mr. Victor Davies; the vice president of Corporate Affairs, Mr. Ron Fraser, and Mr. Albert Watkiss who will be assisting the comptroller in dealing with financial matters.

Mr. Chairman, I have no prepared statement but I would like to say that I am pleased to meet the members of this committee. It is an unexpected pleasure because it is the first time the corporation has appeared before the public accounts committee. It is a most important committee and we will do of course our very best to answer your questions to your satisfaction.

As I understand the terms of reference of the committee as you have outlined them, I think the committee will focus its attention on the long form reports of the Auditor General, and also will deal with the recommendations of the Auditor General and the Glasco commission with certain respects of organization. As these terms of reference all seem to fall within the particular field of responsibility of our comptroller, with your permission I would like to refer as many questions as I can to him, and it is only in instances where matters of policy or matters which seem to be outside of his field of experience and responsibility come up, that I will deal with them myself. However, of course, I am in your hands in this respect.

In relation to the long form reports, I would like to say that they have proved very useful to the corporation and that we have been pleased to note that for 1961-62 and 1962-63 at least the Auditor General seems to have been generally satisfied with what he has found in the corporation. As our 1964 figures are before him now, I trust he will find the same situation when he examines those, but that is something for the future.

(Interpretation)

Mr. Chairman, I just simply wanted to acknowledge the presence of the French speaking members of the committee, and to do it in French, and to tell them that this is the first time I have had the opportunity to meet them. I shall be ready to answer their questions.

The CHAIRMAN: Thank you very much indeed, Mr. Ouimet. Having in mind that questions may be asked in French—as I have said here we are still in the process of more adequate equipment being provided so that it will be necessary for the reporter to adjust the mechanical device for hearing before the French can be translated—I would hope some indication will be given by the French members. Gentlemen, I think this suggestion I make is a reasonable one and I would hope, for the purposes of continuity, to separate the discussion into its logical components so that we can meet together in areas of discussion. I would suggest that we start with the discussion of the 1962 long form report which, in actual fact, is an extension of the reports which appear in the public accounts, volume III, and in the Auditor General's report. I think this will make for a better organized discussion.

I would suggest that Mr. Henderson might start, as is customary, and we would deal with the 1962 report section by section. Then at the end of each section we will stop and have a discussion and questions relating to that particular section, the questions being directed either to Mr. Ouimet and his officials, or to Mr. Henderson and his officials, or we might have a discussion similar to that which occurred on Tuesday when the secretary of the treasury board and Mr. Henderson were asking each other questions which was very enlightening to the committee.

Mr. FISHER: May I ask a question for information? I have a record of a similar meeting in 1961 when Mr. Henderson appeared before the broadcasting committee, and Mr. Ouimet also was here. Has there been any meeting in the interval?

Mr. A. M. HENDERSON (*Auditor General*): I think not; that was the broadcasting committee as distinct from the public accounts committee.

Mr. FISHER: I was interested in finding out whether there had been any previous meeting in between.

Mr. HENDERSON: I think there has not been. Perhaps Mr. Ouimet might confirm that.

Mr. OUMET: There has been no parliamentary committee such as this since that time.

The CHAIRMAN: I hope everyone here has before him a copy of the 1962 and 1963 long form report given by the Auditor General to the corporation. These were distributed. I thought they would be useful to have as a background paper to this discussion.

I would ask Mr. Henderson to commence in the usual way by making a brief statement and then turn his attention to the first section of the 1962 long form report.

Mr. HENDERSON: Thank you, Mr. Chairman. Before turning to the report itself, there are a few general observations which I feel might be helpful to the members of the committee.

As you may know, section 34 of the Canadian Broadcasting Act, 1958, designates the Auditor General of Canada as the auditor of the Canadian Broadcasting Corporation. The accounts and financial statements of the corporation for the fiscal year ending each March 31 are reported on by the Auditor General within 90 days, or by June 30, to the minister designated as the appropriate minister under the Financial Administration Act. This was the Minister of National Revenue for the accounts of March 31, 1962, and the Secretary of State in respect of the accounts for March 31, 1963.

The accounts so reported on then are included by the corporation in its annual report to the minister which the minister so designated tables in the House of Commons early in July of each year. Copies of the corporation's printed annual reports for 1962 and 1963 are readily available here, as the Chairman has pointed out, and can be obtained from the secretary. There are copies available in both languages.

In accordance with the practice followed each year, in my own report to the House of Commons with respect to each crown corporation or agency of which I am the auditor, I have reported annually therein on the accounts of the Canadian Broadcasting Corporation as follows: For the year ended March 31, 1962, paragraph 158 on page 87; for the year ended March 31, 1963, paragraph 137 on page 89. As you will have observed from my report, these paragraphs provide a brief summary of the highlights of the accounts for each of the years under study today and contain my comments on those matters which I feel should be brought to the attention of the House of Commons.

As members of the committee already know from their study of my report, it is also the practice of the audit office to address detailed long form reports to the executive boards of crown corporations and other agencies covering the results of each year's examination, a copy of which is sent in each case to the minister responsible.

These reports outline the scope of the audit, and give a broad summary of the results of operations for the year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in financial control and other matters noted during the course of the audit.

Where matters dealt with in this report are considered to be of interest to the House of Commons they are of course mentioned in the report paragraphs in my main report to the house to which I referred a moment ago.

We believe that these detailed long form reports will be of assistance to the members of the committee in their study of the corporation's accounts for these two years. Mr. Ouimet asked that they be made available to the committee. Accordingly copies were distributed in advance to the members last Tuesday. Your study of these should answer many of your questions on the accounts of the corporation. Now, with the committee's permission we might turn, as you suggest—

The CHAIRMAN: Would you be good enough to do so, please, Mr. Henderson.

Mr. HENDERSON: We might turn to the report made to the board of directors on December 6, 1962, in respect of the year ended March 31, 1962. I might perhaps—on the assumption that copies of this are in your hands—refer briefly to the points contained in the report, and you might interrupt me with any questions.

The first page, as you will see, is a recital of the basis upon which the report is prepared. It mentions the scope or the extent of our examination. You will see on page 2 of the report that we usually attach the financial statements which will have been certified earlier. We do that to provide an immediate and ready reference to the reader, indicating that a copy of the report was sent to the minister designated under the Financial Administration Act.

We then give a brief summary of the results of operations in the year under review, and you will find that it is summarized at the top of page 3. Here it shows the total expenses of the corporation which, in 1961, were \$100,000,000, and in 1962 \$107,000,000. Then we get to their advertising income and their net expenditures. We have to make adjustments for depreciation because in the way the corporation makes up its account, this is not considered a part of its requirements as far as the parliamentary appropriation is concerned. Then we finally arrive at the net operating requirements which is the amount that appears in the estimates and which you will have voted in supply.

On page 4 we show a comparison of these expenses against the operating budget. I might say that this comparison, on page 4, shows the type of budget which the corporation prepares for the treasury board in support of the total amount of its requirements asked for in the estimates. It is precisely this which Dr. Davidson and I were discussing the other evening, and we thought that it might usefully appear in the estimate details in future in connection with providing more information to members of the house when they are considering the figures. At the present time the only information which appears in the blue book of estimates in this case would be the \$70,000,000 figure at the bottom.

Mr. WINCH: May I ask a question here on page 4, Mr. Chairman?

The CHAIRMAN: I thought under the circumstances I would like Mr. Henderson to complete his remarks under this particular section, "Results of oper-

ations" but it is a fairly lengthy one. It covers pages 2 to 7. I hope Mr. Henderson will complete it and then we might come back and have questions.

Mr. HENDERSON: Perhaps I might read through the 1962 report in this manner, and say that the 1963 report follows the same pattern. It is the last one which has been released. Then if I should stop at that point it would be a very propitious time to ask questions.

The CHAIRMAN: You will stop there.

Mr. HENDERSON: I wish to refer to something you might have noticed in the 1962 report. It is that the pattern of these reports is the same, yet the figures and circumstances are naturally different.

The CHAIRMAN: Would you stop please before the balance sheet in case something is required by the committee at that time. You may go as far as the balance sheet which appears on page 7.

Mr. WINCH: My question has to do with 1963-1964.

The CHAIRMAN: The members will be guided by your advice.

Mr. HENDERSON: At the bottom of page 4 you are given a broad explanation of why operating expenses have been increased in this case, 1962, as compared to 1961. You will observe that they are up \$10,000,000.

Beginning at the bottom of page 4 we give reasons. Increasing expenses and declining revenues have both contributed to the enlarged operating requirements. Increased expenses contributed to the extent of \$6,195,414 to the increased operating requirements for the year ended March 31, 1962 over the requirements for the previous year, while decreased revenues accounted for \$4,768,383.

We then move on to page 5, which shows a comparison of the actual increases in various expenditure classifications. You will see there that a large proportion of the increase had to do with the salaries and wages. In this case it was approximately \$4,400,000. We then go on to comment about this. It accounted for 66 per cent of the total increase of expenses as you will see. We refer to the new television station in Edmonton and other factors which have contributed to an additional number of employees engaged during the year.

We carry on with this on page 6. There is a point in the second paragraph on which I have a comment to make in regard to the fact that the salaries of the president and vice president had not been fixed by the governor in council as required by section 25 of the act.

We were informed that such action as may be required to remedy the situation will be taken, and when you go through my 1963 report you will see that this comment remains.

Then there follows a further reference in regard to representation or monthly expense allowance paid to the senior officers. This involves the fact that the claims for reimbursement were not supported by receipted vouchers and details, and I gave my view that the payments could therefore be regarded as income to the officers concerned, under the Income Tax Act.

The CHAIRMAN: At this point, Mr. Henderson, so that we will establish a pattern, may I say that if there are any comments to be made by the officials of the C.B.C. or questions to be put by members of this committee, this is an appropriate time to do it, bearing in mind that we will be coming back to all those items in the 1963 report which follows the same pattern. I am quite sure there is no reason why, in dealing with the 1963 report, we should not turn back to the 1962 report. I thought members should have an opportunity, as well as officials of the C.B.C., to make any comment they wish to make before we go on to the next particular section.

Mr. HENDERSON: You could mark your copies in the margin if you have any questions to put on this particular section.

We then turn to the balance sheet of the corporation. We show the composition of the items on the balance sheet. In this case the cash on hand is the first large item; the next is accounts receivable, which is also a large figure. We then refer to the small parcel of bonds which they have. We then turn to their engineering and production supplies which you will see at \$1,569,345. There is then a comment regarding the engineering, production and stationery supplies because they made a change in their method of accounting. There might conceivably be something there on which you will want to ask a question, although it is not unusual to find this in corporate accounting of this type.

On page 10 we point out the corporation wrote off from their inventory accounts an amount of \$85,894.

Mr. FRANCIS: I am sorry, I have a little trouble following.

Mr. HENDERSON: Am I going too quickly?

Mr. FRANCIS: I am afraid so, sir. Are questions regarding comparisons in the income of 1962 and 1963 in order?

The CHAIRMAN: Yes. At any time a section has been completed it is perfectly in order for a question to be asked on the material contained within that section. My view is that such would then lead to a more organized discussion. When Mr. Henderson comes to the end of a section anyone wishing to ask a question can do so.

Mr. FRANCIS: I was particularly concerned at the decline of income of 1963 over 1962. I presume this was as a result of the impact of private television networks on the C.B.C. I do not know to what extent it is fair to ask this kind of question of the Auditor General.

Mr. HENDERSON: Mr. Francis, if you look at the top of page five I have a sentence there which says:

The significant decrease in revenue from this source was attributed by the corporation mainly to the establishment of second television stations in eight major areas previously served only by the corporation.

The revenue dropped \$4 million.

Mr. FRANCIS: This is the point on which I intended to ask more questions.

Mr. HENDERSON: We will have a similar situation when we reach the 1963 report.

Mr. REGAN: Mr. Chairman, I would like to clarify a point right now. It would appear to me that Mr. Francis' question would not be in order. Surely the extent of our concern, as the public accounts committee, would not go into the question on why revenue has fallen off from sales of the corporation. I think in this particular hearing we are dealing with a crown corporation whose independence and operation must be kept in mind, and this being very important we should be very careful. I would suggest, Mr. Chairman, that you should be very cautious in admitting questions that go into the actual operational details, such as this question would appear to, in my view.

Mr. WINCH: If that is not the type of information we are to get, what are we sitting here for?

Mr. FISHER: Mr. Chairman, on a point of order, I have seen a number of statements by senior officials of the C.B.C. in the last year dealing with this whole question of commercial revenue and perhaps slight alterations and changes in policy. I cannot see much point in just noting that the Auditor

General has pointed out that the revenues have dropped if we do not get a bit more information from the corporation on what policy shifts may be related to this. It seems to me it is natural and therefore I would disagree very strongly with Mr. Regan.

Mr. REGAN: Mr. Chairman, it is basically a question of what is the responsibility of the public accounts committee and what is the responsibility of Mr. Henderson as the Auditor General in relation to the C.B.C. Perhaps Mr. Henderson would care to comment on how far he feels our responsibilities go on this particular point. I think Mr. Henderson would agree that it is not his concern to urge more active sale policies. This is surely a question of the policy of the C.B.C. operation that we are dealing with, whether the auditing procedures have been proper, and whether they have complied with the statutory requirements. Do you agree with that?

Mr. HENDERSON: Yes. You are quite correct on that count, but in terms of the resolution that you have before you and the fact that you have the benefit of the presence of the president of the corporation, it does not seem to me unreasonable that you would perhaps care to ask him to comment on the reasons behind some of these figures.

Mr. TARDIF: I do not disagree with Mr. Regan. I think our terms of reference do not cover this questioning of either the sales, profits or amount of business. I think they cover only the auditing of the figures that are submitted by the corporation.

Mr. SOUTHAM: I would like to put one simple question: Why are we occupying the time of these busy gentlemen of the C.B.C. this morning if we have not a right to discuss some matters pertaining to the corporation?

Mr. MANDZIUK: Mr. Chairman, as far as auditing goes, that is Mr. Henderson's department. I do not think we are going to re-audit anything, but we are interested and we have a right to be interested in policy. I go along a hundred per cent with Mr. Fisher. We are interested in why revenues go up or down. We like to know what shifting policies there were. The Canadian people are entitled to know that. That is the broad aspect of this inquiry.

Mr. FORBES: I think probably Mr. Regan was not present when we read the resolution that was adopted by this committee with the further reference. If you would read that again we would have a fuller understanding of what our terms of reference are.

Mr. CAMERON (*High Park*): I suggest that both the gentlemen are right. Mr. Francis prefaced his request by asking Mr. Henderson if it was an appropriate time to ask it. His question should be reserved until we are asking questions of the president of the corporation. We should discuss policy if we want to do so, but if it is a question of accounting figures, then let us make notes of this and let us wait until we start examining the members of the corporation.

Mr. FISHER: I have two examples which I may be able to give to Mr. Regan. Several years ago the question came up about the film stocks of the C.B.C. I believe it was raised by the Auditor General. One of the things that I want to follow through, when the president of the corporation is involved, is what has happened to both their policy and practice as a result of those rare presentations.

There is another question which was brought up several times, the whole matter of whether there was going to be a management consultant group examining the C.B.C. and its operations perhaps in a one-shot effort, perhaps in a continuing way. I would suggest, Mr. Regan, that those questions go right into the policy and they are legitimate questions to ask. They do follow out of the various reports of the Auditor General and they do inquire into policy.

The CHAIRMAN: Is there any further discussion?

Mr. RYAN: I would just like to observe, Mr. Chairman, that as the public accounts committee we are quite entitled to go into policy.

The CHAIRMAN: My view is—and probably I may not have to give a final ruling—that members of the committee will have an opportunity to frame their questions later on when we get to the 1963 report. As Mr. Regan pointed out, our terms of reference indicate that we are entitled to look at the report of the Auditor General for 1962-63, and we are also entitled to look at the Glassco commission recommendations in so far as they are relative, within the broad terms of reference of the House of Commons in the first place. My own view would be that unless Mr. Francis presses his question now—I do not think I need to make a ruling until we get to it—we are entitled to go into questions of policy as they affect the financial aspect and operations only.

With regard to other questions of policy, we are not a broadcasting committee and we are not entitled to go into questions of policy and programming. We must examine each question on where its emphasis lies. If it is a question of organization and financial policy being reflected in the ultimate financial position of the C.B.C., then it would be my view we are not only entitled to but we should examine it. Beyond that I do not think we should go. This is the ruling I would be inclined to make if the matter proceeds.

Mr. FRANCIS: I quite agree. I think this is entirely proper. I asked when was the appropriate time to raise this kind of question, and I think I will defer it for now.

Mr. HENDERSON: I was referring to page 10 which shows the amounts written off the inventories of engineering and production supplies total \$85,000. They are listed on that page.

We then come to page 11. There is an item carried on the balance sheet of the corporation entitled, "Programs completed and in process of production". As you know the corporation video tapes a lot of its productions, and of necessity must have an inventory of these on hand at any given time. This shows that their balance sheet position at the end of 1962 had increased from \$2,100,000 to \$3,300,000. Some explanation of the increase is given after the table. As is also the case when you are making products of this type, it is necessary to write off some of the material which you cannot use for various reasons, and in this particular year they wrote off \$206,000 worth. That is listed at the bottom of page 11.

We then go on to page 12, to inventory of film and script rights. This was something Mr. Fisher referred to a moment ago which in this particular comparison dropped by \$325,000, and there follows an explanation of what caused that drop. It would also give you some idea of what makes up these figures. The corporation was faced with write offs, and these total \$165,000, as compared to \$241,000 the previous year. They are listed at the top of page 13. You will see that the largest figure of film rights written off was owing to the expiry of contracts, unsuitability of films for broadcast because of program content or technical quality, and changes in programming. I refer to these write offs in rather more brief form of course in my report to the house because they fall under the category of non-productive expenditures which I am asked by this committee to list.

We then come to the capital assets of the corporation which are slightly in excess of \$32 million. You will see my reference to these on pages 13 and 14 indicating how the corporation capital budget is prepared, how it was cleared, and how the actual expenditures compared to the amount which you had voted in the estimates. You will notice here that the corporation did not spend the total amount that you voted to them. You voted \$9,640,000, and it only spent \$6,200,000, consequently \$3,400,000 lapsed

On page 15 I make reference to the importance of having more adequate records of the capital assets of the corporation, something which my officers and Mr. Davies, the comptroller of the corporation, have been working on for some time with a view to improving the records that have to be kept with respect to assets of this type.

On page 15 we show a list of the accounts payable and accrued liabilities. From the list you will see that the majority consists of trade accounts, which is what you would normally expect to find in a corporation of this type.

On page 16 you will see the proprietor's equity account. It amounts to \$41 million. That represents the equity of the crown as the sole stockholder of this corporation. That, of course, changes from year to year depending on the figures.

On page 17 reference is made to the trustee pension plan. The corporation introduced a revised type of pension plan, a trustee plan, and as the auditor of the corporation I am also the auditor of this trustee pension plan. I take this occasion to refer to the results in this report.

On page 19 I bring forward a matter which I have dealt with before and which you will recognize as something I brought out in my 1960 report, and to which Mr. Fisher referred a moment ago. My report to the corporation at that time was tabled in the broadcasting committee, and as I say here I am referring again to the recommendations made two years ago to the board of directors that in our opinion a useful purpose would be served by having the organizational structure of the corporation in terms of its present size, complexity and cost, made the subject of a study by independent management consultants working in conjunction with our office. We understand that a study of this nature was completed by the royal commission on government organization during the fiscal year ended March 31, 1962, but at the time of the preparation of this report the contents of this portion of the commission's report were not available.

This, Mr. Chairman, completes a rather brief description of the contents of my 1962 report. Of course the attachments are identical to those which appear in the corporation's own annual report, namely its balance sheet, its statement of operation, and my certificate. You might have some questions that you would want to address to the witnesses in regard to the figures and the presentation of the figures on the statement of operations, and as the auditor of the corporation I would be interested to hear any observations you would have to make. We have employed the same format for the statement of the corporation for several years, and I think it generally meets with the approval of the management, of the directors, and so far as I know it meets with your approval, at least I have not been in receipt of any comments or criticisms on the manner in which the facts are disclosed.

Mr. Chairman, would you like me now to turn to the 1963 report? I could go a little slower and perhaps pick up the questions then.

The CHAIRMAN: I take it that the committee has pretty well fallen in with the suggestion that as we come to the 1963 report we will quite naturally be free to revert to matters in the 1962 report which will be reflected in the 1963 figures, and that your failure to ask questions does not necessarily mean that you cannot go back there. The same thing applies to the officials of the C.B.C. who might wish to make some comments at this time on any aspect of the 1962 report. Is there any particular point, Mr. Ouimet, in the 1962 report to which your officials wish to make reference?

Mr. OUIMET: I do not think so. I think everything is in order and accepted.

The CHAIRMAN: Do all members of the committee have the long form report for 1963?

Mr. HENDERSON: I would remind members that when the audit office issues these reports to the corporation, they are addressed to the board of directors, and the president is furnished with as many copies as he requires. So, these documents have been the subject of discussion and study in depth by the directors of the corporation.

The CHAIRMAN: May I apologize to the members who are interested in receiving the French version. These are long form reports made privately to the C.B.C. by the Auditor General in his capacity as their auditor. When it was decided to proceed in this way, we asked Mr. Henderson whether he would be good enough to try to arrange for the French versions. We hope these will be available shortly. However, it is not the type of document which normally is in French. These will be available shortly, and I will see they are distributed.

Mr. GRAFFTEY: It is most regrettable they are not in French at this time, but we are becoming accustomed to this type of explanation.

Mr. HENDERSON: They are furnished in French if the corporation, the agency or the department so requests.

Mr. GRAFFTEY: I have no special complaint about this committee, but this is the type of explanation which has been given to parliament and to committees over the last two years in respect of this sort of thing.

Mr. FRANCIS: Is it not better now than in the past two years?

Mr. GRAFFTEY: No; this practice has been evident over too many years. I am simply registering my complaint again.

The CHAIRMAN: Your complaint is noted and will be directed to the authorities concerned.

Mr. HENDERSON: The report to the directors for the year ended March 31, 1963, as you will see, is dated November 22, 1963. Again, in the opening paragraphs on pages 1 and 2, we follow the format we mentioned in the 1962 report.

Under results of operations you will remember the figure the previous year I think was some \$70 million. The sum of \$73,244,000 was provided this year by the government as a grant in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service. In this particular year \$61,661,000 was supplied to the corporation under authority of parliamentary appropriations and \$11,583,000 under authority of Governor General's special warrants.

On page 3 you will see again a comparison to 1962. In fact you will see the 1961, 1962 and 1963 figures. You will see the total expense figure across the board. I am sorry; this begins with the accounts of 1960.

Mr. WINCH: May I ask two questions in respect of page 3? Is there any breakdown of selling and general administration; is it possible to have a figure showing how much of that is selling and, secondly, at the same time, may I ask whether depreciation includes depreciation on the buildings?

Mr. HENDERSON: May I answer that, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. HENDERSON: To take your last question first, the depreciation is taken at standard rates on the buildings. It is taken into cost because it is a part of cost, but it has been eliminated when you reconcile the total requirements with the parliamentary appropriation because parliament does not vote money for depreciation as such.

Mr. WINCH: That is the point I am trying to get at.

Mr. HENDERSON: The total cost of the corporation as shown in the tabulation on page 3—the total expense figure—includes depreciation to the amount of the figure shown; but it has been deducted at the bottom because it is not in the parliamentary appropriation. This is a corporation which keeps its books on the accrual basis.

Mr. WINCH: How about depreciation of equipment?

Mr. HENDERSON: That is included.

Mr. WINCH: On the same principle?

Mr. HENDERSON: Yes. The figure you see for depreciation represents depreciation at standard rates on all equipment and buildings owned by the corporation.

Mr. WINCH: Is there a breakdown of selling?

Mr. HENDERSON: You will find that in the statement of operations which is exhibit 2 in the annual report where the selling and general administration figure is broken down three ways. In the year 1963, you will see the figure \$7,268,751. Midway down is the indented selling expense of \$1,646,990, engineering and development \$1,080,411, and management and central services \$4,541,350.

Mr. WINCH: It may be because of my ignorance, but I would like to ask Mr. Ouimet whether we might have a brief explanation of the \$1,646,990 selling expenses?

Mr. OUMET: Well, we have to sell programs. We have a sales force and a commercial department that is concerned with sales policy and selling sales quotas. We have to administer and manage this sale of \$30,800,000 in this particular year. This is our cost of selling.

Mr. WINCH: Do you mean the selling of programs in order to get the advertising?

Mr. OUMET: Yes, selling.

Mr. WINCH: It is not selling, for instance, to the B.B.C. in Great Britain, or something like that?

Mr. OUMET: No; this is the cost of actually obtaining commercial revenue for advertising; it is the sale of programs as well as the sale of commercial advertising in between programs—what we call spots or spot advertising.

Mr. WINCH: Thank you.

The CHAIRMAN: Could the Chairman ask a question at this point? My education was totally devoid of accounting experience, and perhaps this is why I ended up as Chairman of this committee. On page 3 I see that the advertising income for 1963 is \$31,402,592. In the actual budget in the second last item I see the following:

Less: Commercial revenue (net of agency and	
U.S. network commissions and payments to private	
stations)	\$22,698,000

Is there a reconciliation of the relationship between the \$22 million, which is the actual budget for commercial revenue, and the advertising income, and so on, of \$31 million in 1963? Am I wrong in my thinking there should be some relationship there?

Mr. HENDERSON: Yes; there is a relationship. I think Mr. Davies has it calculated.

The CHAIRMAN: It puzzled me.

Mr. W. F. DAVIES (*Comptroller, Canadian Broadcasting Corporation*): Mr. Chairman, this is the difference between the gross revenue and the net revenue. The gross revenue stated at \$31 million also includes interest on the

investment figure in the miscellaneous income item. The \$30,846,000 is reduced to \$22 million by \$4,800,000 which we pay to private stations as their share of the revenue, plus the amount we pay out as commissions to agencies, and the share which goes to the U.S. network.

Mr. GRAFFEY: I realize that because of the establishment of private television stations, the advertising dollar income went down, but in spite of that these figures indicate that television as a communication medium in general is getting an increased share of the advertising dollar.

Mr. OUMET: We believe this actually is the fact, but it is a very slow increase over the years. The television medium has not been reduced in its share of the total advertising revenue, but has been increasing only very gradually and not sufficiently fast to take care of the very sudden demand placed on the advertising revenue by the establishment of the second television stations which represented not only several millions, but something in the order, I believe, of \$20 million. The \$20 million was supplied in a small part by new dollars from advertising, but only in very small part, and in too great a part from revenues which the Corporation used to get, and also in great part from revenues that other private broadcasters used to get in Canada.

Mr. HALES: My question, Mr. Chairman, has to do with advertising income. I may address my question to the comptroller, I presume. For every \$100 worth of income from advertising, how much does it cost to sell that \$100 worth of advertising; could you give us that for 1960, 1961, 1962 and 1963? Has it continued to go up or has it come down?

Mr. DAVIES: On a comparative basis, Mr. Chairman, I would beg leave to submit this at the next sitting. In 1963 we were running at a total selling expense of about 5.3 per cent in radio and television of sales.

Mr. HALES: For every \$100 worth of sales of advertising you spent \$5.30?

Mr. DAVIES: Yes.

Mr. OUMET: I believe, Mr. Chairman, this answers the question.

Mr. DAVIES: This is for 1963.

The CHAIRMAN: Do you wish to pursue your request for the comparative figures which would mean they could be produced at a later meeting?

Mr. HALES: Yes, I would like to have the information for the three other years.

Mr. HARKNESS: What is the breakdown between television and radio of your advertising income?

Mr. OUMET: It will take a minute to look it up.

Mr. HARKNESS: While that is being looked up, although this may depend on that information to a certain extent, I wonder where the decline in the revenue came in, and whether it was from television or from radio; that is, the decline from \$38 million odd in 1960-61 to \$31 million in 1963. I wonder whether the decline chiefly was in the television income or in radio income?

Mr. DAVIES: The decline in revenue was solely in television. There was some very, very small percentage of increase in the radio, but it was not at all significant. The total decline was in television. In 1963, of the \$30,900,000 gross revenue, \$2.7 million was radio, and the balance of \$28,200,000 was television.

Mr. HARKNESS: Then what are the reasons for this decline?

Mr. OUMET: Mr. Harkness, I believe this is what I tried to explain earlier; that is, that the sudden coming into being of eight second television stations in the major areas where we were operating created a sudden demand for advertising revenue which could not be supplied by the advertisers. In other words, no new dollars were created, or only a small amount was created, so

that it had to come from other media as well as from television. The impact in C.B.C. was fairly heavy as a result of this, and many private stations also saw a reduction in their revenues.

Mr. HARKNESS: So far as your sales organization is concerned, what efforts have been made to keep up the advertising revenues? I note that one of the criticisms made in the Glassco report was that your sales activities were not adequate.

Mr. OUMET: Every effort was made to keep the revenue up. We actually took special measures to intensify our sales effort; but when the total amount of money available remains the same and somebody comes into the market with a demand for \$15, \$18, or \$20 million, of course, then, you have to suffer a reduction. This had been predicted, by the way.

Mr. HARKNESS: One of the criticisms in the Glassco commission report was that in their opinion your record was not as good as it should be because there was very little incentive for your salesmen to go out and get business. As I recall it, one of their recommendations was that there should be more incentive so far as your sales force is concerned. They noted especially that these people on your sales staff were on a straight salary basis; there was no commission if they got more business. The recommendation more or less was to the effect that incentives of that kind should be provided so far as your sales force is concerned. Has anything been done along this line?

Mr. OUMET: Yes; we have looked into the possibility of doing this. Some steps were taken, but there is a limit to what we can do in practice. Furthermore, we are not convinced that in our type of business—because we are in a business when we are in commercial broadcasting—such measures as suggested by the Glassco commission would necessarily be the best way to handle it. I do not want to make this as a final statement because at the moment there is a study group working on the question, and they may come up with recommendations which would change my answer.

Mr. HARKNESS: Do you pay your sales force on a commission basis?

Mr. OUMET: Generally speaking I would say no to your question.

Mr. HARKNESS: Do you not think it might be desirable to put part of them on a commission basis in one or two offices to see what effect or result there might be?

Mr. OUMET: I would not like to say at the moment. We are studying it now, and we may move in that direction, or, on the other hand, we may not.

Mr. HARKNESS: Is it not a fact that, as the commission pointed out, practically all organizations find their sales to be much better if they have incentives for the people engaged in doing the selling.

Mr. OUMET: It all depends on what you are selling. If you are selling standard products, it is easy to tell your salesman to go ahead and to sell these known products according to the quota you give them and according to the incentives which you offer them. But in our case we are selling programs which are designed in the first place as a public service. An incentive basis may not be the best way to handle that type of sale. We do not have a standard product to sell. In the selling of programs in the corporation, for example, it may be plays, a series of plays. This is not something which can be sold according to known specifications where you can guarantee a sponsor that he will get such and such a product, because it is subject, first of all, to the objectives of the corporation which are primarily public service, and not primarily to make programs that will sell the most easily or that will give the greatest return to the sponsor.

The CHAIRMAN: I would prefer if we did not ask supplementaries. They are usually related, but I think we had better wait and deal with them when each member has a chance to develop his complete line of examination. I think that would be the better way.

Mr. HARKNESS: On what basis do the big American networks, the Columbia and the National, work as far as sales are concerned? Are they on a commission basis, or do they follow the same basis that you follow, that of a straight salary?

Mr. OUMET: Before answering your exact question might I say that the American networks do not make many other programs than those which will get the maximum audience, and those which will sell the most easily. Although I am not sure of their exact practice, I would imagine that most of their salesmen must be on some incentive system. But I must repeat that we are dealing with two different kinds of product: in one case the American networks are a business. That is all they are. They are a business. They are in a commercial business. But in the case of the C.B.C. you are dealing with a public service which happens to be engaged in commercial operations in order to reduce the total requirements for public funds. It is not at all the same emphasis.

Mr. FRANCIS: I would like to follow Mr. Harkness' line of questions. Is the C.B.C. engaged in selling only network advertising?

Mr. OUMET: No, we sell network and we sell local advertising.

Mr. FRANCIS: I am concerned about the sale of local advertising with which field I am personally a little familiar in connection with paid time for advertising in an election campaign. Is there prohibition by the C.B.C. upon accepting sponsored political ads?

Mr. OUMET: Yes, it has been traditional policy of the corporation not to sell time for political purposes, and also for religion, for education, and for many other fields.

Mr. FRANCIS: You say traditional; is there a policy? Is there a statement of what is the traditional policy available? I am curious to know the things you do not accept.

Mr. OUMET: We could provide you with an exact statement of those types of programs which we do not offer for sale. I am thinking of our news, for example.

Mr. FRANCIS: I appreciate it. The effect of it is that in an election campaign, the commercial field has a monopoly of this kind of advertising revenue. Are there any other areas from which the C.B.C. really withdraws, leaving them entirely to commercial operations?

Mr. OUMET: Yes, we do not sell our news; we do not sell, as you mentioned, political broadcasting; we do not sell religion, and we do not sell, generally, public affairs programs. We do not sell educational programs either.

Mr. FISHER: What about cigarettes?

Mr. OUMET: We do not sell in general information programs. But apart from this we do not accept certain types of accounts which will be accepted by private stations. There is quite a long list of accounts that we do not accept.

Mr. FRANCIS: I wonder if Mr. Ouimet would consider preparing a statement in this general area, because I at least, as one member of the committee, would like to have that information.

Mr. OUMET: We shall be pleased to do so.

The CHAIRMAN: It will be in line with financial and organizational matters, yes.

Mr. FRANCIS: I am concerned about the trend here. Your advertising income for 1960 was \$38,500,000; for 1961, \$38,000,000; for 1962 it was \$33,300,000; in 1963 it was \$33,400,000. A little geometrical projection here develops a series of questions in my mind. Would Mr. Ouimet care to comment on this trend? Does he see any stabilization or reversal of this trend?

Mr. OUIMET: Yes.

Mr. FRANCIS: This is in a different field to that of Canadian publishers some of whom are saying very vigorously that what has happened in Canada is that private television has grabbed the great bulk of advertising revenue, and that this puts printed magazines out of business in Canada, because of the obvious impact on the public stations. I am raising the basic question: Has the C.B.C. withdrawn from too great a sector; is the C.B.C. following the incentives which Mr. Harkness pointed out, to maximize its revenue? What assurance can Mr. Ouimet give the committee? On what does he base his anticipation of a reversal of this trend in the future?

Mr. OUIMET: To answer the first part of the question, I think the figures before you indicate a very marked downward trend. Actually in the last year, 1963-1964, that trend was stabilized. We are not going down any further. In other words, we have had the full impact of the advent of second stations as far as we know, unless they change their policies or their methods of selling, or the total amount of commercial time they may be allowed to carry.

As far as our efforts to get our revenues at the highest possible level, we do so of course consistent with our primary objectives. We must not allow at any time our commercial considerations to affect our programming service which must be determined on a public service basis. And this consideration has had no effect on the broad downward trend that we have been talking about. It has been due almost entirely to the advent of new demands on advertising funds.

You were talking about incentives. We are very conscious that whatever may be the basis of our selling activities, such incentives would be very useful to have. It is simply that it is very difficult to determine a set of incentives when you are dealing with the sale of programs for which there is no known specification ahead of time. It is not the same thing when you have a standard product. You know you are going to be able to sell this product in the whole year, and it is specified and it is known. In our case one program in a series for example may be of one type, while another one may be perhaps built to a different requirement and have a different audience; so it is difficult to establish a system of incentives for this type of selling.

The CHAIRMAN: Might I interrupt here. I do not know if you have finished, Mr. Francis, but the time has approached when we must move out to make room for the defence committee. Before we do so, I have been advised that Mr. Davies can now give an answer to the question which Mr. Hales asked. It will be put on the record. Perhaps I might ask him to do so now.

Mr. DAVIES: Your question had to do about the percentage of selling expenses up to the years 1962 and 1963. In 1960, it was 3.2 per cent; in 1961 it was 3.7 per cent; in 1962 it was 4.7 per cent; and in 1963 it was 5.3 per cent. This reflects a dropping off of sales revenues.

The CHAIRMAN: I think we must postpone further questions at this time. Mr. Francis will be continuing, and Mr. Fisher will follow him. Before we leave do you agree that we print as an appendix the 1962-1963 long form reports?

Agreed.

(See Appendix 1.)

Are you prepared to come back here, as I hope you will, at 3.30 p.m.? We have no formal order, but in order to accommodate the parties concerned, and in view of the limited time available, are you agreeable to coming back at 3.30 p.m. and 8.00 p.m.?

Agreed.

It will be 3.30 or after the orders of the day. We hope that with the opposition being reasonable as usual, we will be finished with the orders of the day by 3.30. The meeting is now adjourned until 3.30 p.m. or thereabouts.

AFTERNOON SITTING

THURSDAY, July 2, 1964.

The CHAIRMAN: Gentlemen, I am told we have a quorum. The meeting will come to order.

Before we carry on, Mr. Ouimet has some information which he is going to give to me in response to questions. He has a clarification to make in respect of a statement he made this morning.

Mr. OUIMET: Mr. Chairman, I have here two lists which I would like to file with you in answer to an inquiry of Mr. Francis. The first one is programs not available for advertising, and the second is a list of unacceptable accounts.

The CHAIRMAN: Thank you, Mr. Ouimet. Is it agreed, gentlemen, that these two lists be printed as in appendix to today's Minutes of Proceedings and Evidence?

Agreed.

(See Appendix 2.)

Mr. OUIMET: Then, Mr. Chairman, this morning when we were discussing commissions and incentives, I am not sure that I gave the complete picture. I think I was asked specifically whether we had people on commission and I said no. Then we more or less dropped the question of incentives. What I would like to bring to the attention of the committee is that in Montreal and in Toronto we are experimenting with an incentive system, where we have a number of our salesmen who are on a sales compensation plan which means that while they are not on commission, they do receive supplementary remuneration on the basis of their performance.

Mr. HARKNESS: I take it this is a bonus system?

Mr. OUIMET: You might call it a bonus system. The results achieved are subject to assessment by a committee. This assessment takes into account the difficulties of sales in particular areas; all areas are not the same.

Mr. HARKNESS: This is for selling advertising on national networks, and is not just for the local stations in Toronto and Montreal?

Mr. OUIMET: I believe this includes national selective business also; but this is Toronto and Montreal only. It has not been tried in other locations. We are waiting for the results of this experiment before we decide whether or not we will do it at other locations.

The CHAIRMAN: Gentlemen, we had reached the top of page 3 in our consideration. Mr. Harkness had asked a question, and a number of questions followed. I think it would be logical if we asked Mr. Henderson to carry on from there to the top of page 9 without interruption. In the course of this he will cover the details of expenses and income. Some of the details have been elicited following the questioning in respect of the table at the top of page 3. After Mr. Henderson has done this, we could then resume our questioning. Mr. Fisher is the first on my list.

If I have your approval, I think our proceedings would be more orderly, and we would save a good deal of overlapping by proceeding in this manner. Mr. Henderson, would you be good enough to carry on from page 3 to page 9, dealing with the question of income and expenses?

Mr. HENDERSON: On page 3 you will recall that you saw the summary of the net operating amount required for the year which we are now studying, 1963, compared to the three previous years. On page 4 there is shown a comparison of the actual net operating amount required against the budget figures which would have been filed with the treasury board in support of the estimates that ultimately appeared in the blue book, and which you approved in the course of approving supply.

I would repeat, the corporation seeks to budget or to estimate the broad general area of its requirements ahead of time under the categories shown in this table on page 4. The figures appear in the budget column. They are required, under the treasury board procedure, to estimate to possibly 18 months and sometimes even further ahead of the period for which the money is going to be needed.

In this case you will observe, speaking on the net basis—how the total expenditures less recovery brought out the actual figures to \$1,339,000 less than the budget.

On page 5 we deal with the expense increases and decreases before turning to income. Here you have a table showing the categories of expenses for the year you are considering—1963—compared to 1962. On the comparison you will observe that in 1963, whereas salaries and wages again increased \$2,362,000, certain savings in other areas reduced the over-all increase to \$755,000. We then go on to point out that the increase in salaries and wages is mainly attributed to the provisions of the collective bargaining agreements, together with an increase in the number of employees during the first four months of the fiscal year. However, staff reductions during the balance of the year more than offset this early increase, and by March 31, 1963, the corporation had 179 fewer employees than at the end of the previous year.

The next paragraph refers to the same item that I had commented on in my 1962 report, having to do with the executive officers' remuneration, including as it does the salaries of the president and the vice-president, and again recording the fact that there had been no action in respect of authorizing the salary rates being paid for these two officers. This was the condition I had referred to in the previous year's report and which was still the case at March 31, 1963.

That condition has been rectified, I believe, during the year that has just recently been completed, that is, to March 31, 1964. The reduction in the amount paid to private stations is also referred to here. Owing to the disaffiliation from the C.B.C. network of two stations, this resulted in a drop in revenue.

We then deal with commissions paid to agencies, and we explain why they were reduced. That is on page 6.

Mr. CARDIFF: May I ask one question?

The CHAIRMAN: Please let us go through to the end, Mr. Cardiff. I have Mr. Fisher on my list next. I think we would get along much better that way.

Mr. HENDERSON: On page 7, one of the items in the expense category which you will have noted is employment expenses, other than wages and salaries. The principal reason for the change here is that the corporation adopted a new pension plan, as you will recall from my 1962 report. They moved into the trusteeship type of pension plan, and their contribution accordingly was higher; that is, 7½ per cent of salaries and wages for male employees, and

6 per cent for female employees. Under the old plan it was 6 per cent for both, and married women were not eligible under the former plan. In this year you are studying now they took the full impact of that particular change.

We now turn to the bottom of page 7 to income where again you see comparison between the three factors which make up the income of the corporation, which of course principally is advertising, which we discussed earlier, and interest on investments. That would be largely arising from their holdings of some bonds which you see in the balance sheet, and to other miscellaneous items.

At the top of page 8 there is a comment which possibly will be of interest to Mr. Harkness in the light of his questions. It says that a decrease in television advertising revenue was offset to a small degree by increased radio advertising revenue to the extent of \$134,000; and we point out the reasons again which the president gave in his earlier testimony about the impact of private television activities on the corporation's revenue.

The next paragraph deals with an interesting angle on the statement of operations. You will find in the corporation's annual report a statement of operations, the one which follows the balance sheet, namely exhibit II. Therein are segregated costs of production and distribution under two types of headings: first of all, programs without advertising, \$63,586,267 and programs with advertising, \$28,801,732.

Within the former classification, that is to say, programs without advertising, there are two types of programs: those which are available for advertising which have not attracted advertising revenue; and programs of a public service nature, which, because of corporation policy, are not available to prospective advertisers.

There then follows a segregation of the total cost of the programs without advertising. You will see that of the \$63,586,267 at the bottom of page 8, in point of fact \$26,561,801 were for programs available for advertising, and the others were for news, and public service programs.

The most important point is contained in the last paragraph which says that the total cost of production and distribution of programs with advertising potential, therefore, is really \$55,318,533 comprised of the \$26,516,801, above and \$28,801,732 shown as cost of production and distribution of programs with advertising. As gross advertising revenue amounted to only \$30,846,627 the difference of \$24,471,906 was required to be met from the parliamentary grant during the year.

The CHAIRMAN: Thank you, Mr. Henderson. We are now open for a discussion and questions up to this point. The order of questioners I have is Mr. Fisher, Mr. Ryan, and then Mr. Cardiff. Now, Mr. Fisher.

Mr. FISHER: I would take it from the way the figures are shown that all administration and what you might call headquarter expenses are costed into the figures for programming.

Mr. HENDERSON: No, they are not. If you have exhibit II before you, the statement of operations, you will see that whereas they have put in as many of the direct costs as could properly be allocated under the heading of cost of distribution, there remain other expenses, the division of which would entail considerable work and time, and which cover all the other cost aspects. They have not sought to break down the expenses under operational supervision and services, and those of selling and general administration; they are left in as total figures without being applied upstairs.

Mr. FISHER: It is possible to approach the C.B.C. or any other crown corporation from the point of view of looking for too large an overhead, too many administrative bodies and not enough of those who are actually engaged in

production or revenue. We approach the C.N.R. and T.C.A. in this way. I would like to know if in your opinion, in your analysis as such, you can get a good view of the administration and general overhead cost of administration as against production, or you might say the productivity of the organization?

Mr. HENDERSON: That is what we have sought to do in this particular statement. Perhaps I might ask Mr. Davies to correct me if I am wrong in this; but I believe the cost of production and distribution includes what might be called the direct allocable expenses to the programming, to the network distribution, and so forth. Managerial expenses, selling expenses, operational supervision, overhead and the things which you describe are to be found in the two figures which follow, the \$8,426,592 and the figure of \$7,268,751. Would that not be correct, Mr. Davies?

Mr. DAVIES: That is right. The cost of production and distribution, Mr. Fisher, is somewhat equivalent to a cost of sales figure, and these other two items, operational supervision and services, and selling and general administration are the same as would normally be found as additional items to it, such as general office expenses.

Mr. FISHER: In your corporation you have had an increase in the budget over the last number of years. When are we going to get results in terms of increased productivity so that the cost of the products would tend to become stabilized or to come down in relation to both the capital as well as the other spending you are talking about in your administration?

Mr. OUMET: I wish we could answer this question, but we really do not know. Our overhead figures expressed as a percentage and comprising selling and general administration as well as operational supervision and services have remained pretty well fixed over the years. Even when our total output was smaller than it is now; generally speaking the overhead was about the same as we have at the present time. I think the reason for this is that we are dealing with a custom made product. In other words, there is no advantage in terms of simplification of supervisory processes by making more programs, because each one of them still requires the same attention. I really do not think that our supervisory charges will appreciably change over the years. We of course have no advantages of mass production, and because of that the fact that you produce twice, or three times as much does not change your ratio of overhead.

Mr. FISHER: I am paraphrasing very generally an interpretation of the speeches which you have made within the last six months which indicate that the C.B.C. does not intend to go out more militantly than it has in the past for more advertising revenue.

Mr. OUMET: That is correct, if it is left to the C.B.C., but this is a matter on which parliament can decide otherwise.

Mr. FISHER: The reason I wanted to raise this question is that on at least three occasions I have seen in your various reports an indication that you did go out after more advertising revenue about four years ago as a result of a recommendation of a parliamentary committee.

Mr. OUMET: Yes, we did, and at the same time I think there was also a general boom in advertising economy.

The CHAIRMAN: Mr. Henderson has presented us with figures which indicate that you still have a potential advertising revenue of a considerable size in terms of programs that are available for advertisers but have not been taken up as yet.

Mr. OUMET: I think I should explain what categories of programs are included under this general description.

Any program which can be sold within our framework of policy is available for advertising but that does not really mean it is a saleable program. For example, a program of chamber music, and we have programs of chamber music, can be sold in the sense there is no policy that prohibits its sale, but in fact it cannot be sold because no sponsor will purchase it in view of the fact it has an audience too limited to interest a sponsor. We have many programs which are addressed to minorities. As you know, it is a job of the C.B.C. to serve minorities, and although these programs can be sold according to policy, they cannot be sold in fact because there are no sponsors who wish to purchase them.

Mr. FISHER: What would be a more realistic figure or percentage in respect of those programs which are available for advertising but are impossible or unlikely to be actually saleable?

Mr. OUMET: I personally believe that we are selling the absolute top percentage of programs available for advertising which can actually be sold.

Mr. FISHER: You are selling that top percentage at the present time without any change in policy?

Mr. OUMET: We are selling the top percentage we can sell without a change in policy being effected. In order to sell more we would have to change our policies and open up other categories of programs which are relatively popular but which we cannot sell as a matter of policy.

Mr. FISHER: Mr. Chairman, I intend to leave this subject now in the hope that other members will follow it up. Before I leave I should like to ask one or two questions in respect of the money that has been turned back to the crown over the last few years.

Mr. Oumet, you have indicated that there is no way you can make adjustments within your budget in respect of this money. The reason I raise this question is familiar since the question has been raised for approximately the last ten years. And it is related to the possibility of using some of these funds for the extension of service. What are the difficulties you have encountered, first of all, in getting a proportion of your budget allocated for the extension of services and, second, in respect of any statutory or regulatory form of applying anything that you have left over, and which you are not able to spend in other categories, to this field?

Mr. OUMET: In order to completely answer your question I think I must say that each year for the past six years we have submitted our requirements in terms of operation and capital to the treasury board. Perhaps we could limit our discussion to capital requirements. These requirements have been considered and, generally speaking, the treasury board has recommended to parliament, and included in the estimates, an amount which is usually less than the amount for which we have asked, and this has necessarily limited the number of projects that we can handle.

In this regard we have different kinds of projects. Sometimes we must replace obsolete equipment and at other times we have to consolidate facilities. We also have the very important requirement of extending our coverage in areas not receiving service. I believe that will answer the first part of your question.

In respect of the second part of your question relating to difficulties encountered in using up funds, which might not be used during the course of a year, for coverage instead of something else, this is something we cannot do because, according to the rules of the treasury board, we have to indicate the general area in which the funds have to be expended. We cannot move from coverage to replacement of obsolete equipment, or vice versa. Since we are on

a voting basis, any money that is not used simply lapses and we must ask for it again the next year, if we need it. If we were on a long term financing basis, of course, we could put some money aside, if we had saved it, and use it for some of the purposes you have mentioned.

Mr. FISHER: Have you any views, Mr. Henderson, from the point of view of the office you hold, in respect of giving the C.B.C. greater latitude in spending within its budget, and I refer particularly to alternative spending under circumstances where one sector of the budget does not receive all of the allocated spending within a year?

Mr. HENDERSON: These budgets which are passed by the treasury board, and which are listed in my report, carry the provision that the corporation can exceed any one of the individual categories up to ten per cent providing there is sufficient money available in the other categories to permit it. In other words, the C.B.C. can make their own transfers, but if they exceed this ten per cent tolerance, as the treasury board staff describes it, then the corporation is required to file a revised budget at which time the treasury board staff looks over the request, and I think, in our experience, all things being equal, generally approves it. There may be some reason, of course, why the Board would not give approval, but generally speaking that has been the policy of treasury board. That policy applies not only to the C.B.C. but to most of the other crown corporation budgets which, as we know from earlier discussions, are filed in like manner with the treasury board.

Mr. FISHER: In looking at page 4 of the 1962 and 1963 long range reports, I assume that any extension of service would come under the item "Network Transmission"; is that right?

Mr. OUMET: This table refers to the operating costs, and we have been generally referring to capital costs.

There are two elements to be considered in this regard, the first being, of course, capital costs. I believe capital costs is the factor being determined here.

Mr. FISHER: You would include engineering under network transmission?

Mr. OUMET: This item covers microwave transmission and sound transmission over the ordinary telephone lines and cables in respect of our TV and sound programs.

Mr. FISHER: Where do you stand at the present time in terms of the recommendation that you have a longer term budget?

Mr. OUMET: This, as you know, was announced as an item of government policy in a statement by the hon. Mr. Pickersgill when the troika committee was set up. It is also an item which, I believe, is under consideration by the advisory committee that has been set up by Mr. Lamontagne.

Mr. FISHER: You want this, do you?

Mr. OUMET: As far as we are concerned, yes; for years we have asked for it, and the Fowler commission in 1956 recommended that the corporation be financed on that basis. Our position has always been the same. We think it would give us a great deal more facility to plan ahead than the present arrangements.

Mr. FISHER: Have you any views on this or are you in a position to express any views on this policy change, Mr. Henderson?

Mr. HENDERSON: I think, Mr. Fisher, this is a matter on which I would prefer not to comment. The issues are fairly widely understood, I think. As Mr. Ouimet points out, this is a policy matter which he has under discussion with the government.

Mr. FISHER: The last matter I want to raise is with regard to the question you have posed a number of times, Mr. Henderson, in connection with the need

for a survey which, I take it, would be almost a continuous management survey. I gather from the items that have been filed that the corporation has made certain responses to this and also to the recommendations of the Glassco commission. I wonder what the responses are.

The CHAIRMAN: While I suppose this could come under this heading I wonder if it is not more a matter for the last item, "Special Survey", which deals with Mr. Henderson's views in this regard in considerable detail. I think this would be preferable because we could then have a general discussion at that time. I am not trying to prohibit you, but I do think it would be more advisable if we were to wait until then.

Mr. FISHER: I would like to ask Mr. Henderson if he is satisfied now with the way in which film purchases and rentals are handled and whether he feels the point which he made several years ago is now cleared up.

Mr. HENDERSON: We have not raised any further objections to this situation over the past couple of years, Mr. Fisher. We have continued to keep this under the closest review with Mr. Davies in the course of our audit work. There have been some points where we have felt there could be a tightening up, and he has co-operated in trying to achieve this.

We have not yet reached the section of the report in which I deal with these matters, and that begins on page 13.

In the Quebec region we have a situation which was the cause of some concern and to which I make reference on page 14.

Mr. FISHER: I will let that go until later, Mr. Chairman.

The CHAIRMAN: Mr. Ryan.

Mr. RYAN: The very area with which I was most concerned is the one just mentioned by Mr. Fisher; that is, the second item at the top of page 4 in the Auditor General's report for 1963, and the second item at the top of page 4 for 1962, dealing with film purchases and rentals.

Mr. HENDERSON: That is the expense item, the amount they have budgeted and the actual expense. However, further on in the report, on page 13, I do deal with it in rather more detail.

Mr. RYAN: I would like to ask a few more questions if I may.

The CHAIRMAN: Yes, but keep them general, Mr. Ryan.

Mr. RYAN: I am not familiar with what happened two or three years back. However, I note that the corporation has exceeded its budget to the extent of \$489,000 in the fiscal year ended 1963; you have gone up to \$8,880,000 of actual expense, almost \$0.5 million. For the fiscal year 1962 you have overstepped the budget by \$944,000, which is almost \$1 million, and which is certainly in excess of 10 per cent of the budget, which was \$7,676,000. Was this the picture for, say, the three years prior to 1962?

Mr. OUMET: I will ask Mr. Davies to answer this. I do not believe this was the case.

Mr. DAVIES: We are dealing with the year 1962.

Mr. RYAN: What was the picture for the three years immediately preceding 1962?

Mr. DAVIES: I would have to check this. I could not specifically answer the question for the two years previous to 1962 because I just do not have the figures available.

The CHAIRMAN: We can obtain that information and have it available, Mr. Ryan, before we complete the C.B.C. inquiry.

Mr. RYAN: Can you specifically answer whether or not treasury board approval was obtained for the excess of \$944,000 for the fiscal year ending 1962?

Mr. HENDERSON: If it was not, Mr. Ryan, I would have mentioned it in my comment here in this report.

Mr. RYAN: Does the treasury board, when it reviews an application for permission to exceed the budget position, obtain a breakdown of the film purchases and the rentals and obtain full details?

Mr. HENDERSON: Yes, they require the corporation to file a revised budget, substantiated by the reasons behind it, before they will approve a transfer in excess of 10 per cent of any individual amount, always provided the savings can be achieved from other categories. They cannot, of course, alter the total.

Mr. RYAN: Does this show from what countries the films are purchased or rented?

Mr. HENDERSON: Perhaps Mr. Davies can say a word about the detail he gives to the treasury board in support of such request.

Mr. DAVIES: The detail we give to treasury board, Mr. Ryan, is on the basis of the total amount of this category of expenditure, and it is based on what we estimate our expenditure would be for the year. For instance, in October, 1962, we would be going to treasury board about the 1963-64 expenditures, and we would not have finished our year until six months later. Therefore, we estimate as closely as we can, having the experience of the first half of the year, what we expect will be the expenditure in the various categories. We go through all the complete detail on the individual items—the salaries, for instance, and film purchases and rentals. This would be one lump sum unless there were certain changes in the program schedules which would indicate some sharp divergence. This is what the figure would show.

Mr. RYAN: Does the corporation at any time make a public statement in regard to where they make their purchase or rental of films? Is this listed anywhere so the public can see it?

Mr. DAVIES: No, this is a matter on which we deal with known distributors. Anyone in the film distributor business would approach us and they would be well known. For instance, there would be no restrictions on from whom we would purchase.

Mr. RYAN: Is it against your policy to reveal from whom you purchase or rent films?

Mr. OUMET: The question really has not come up but, generally speaking, we do not reveal this kind of information.

We are in a competitive field. I should point out at this time that these film purchases and rentals in great part are feature films; what you call old movies. We use a great deal of them and, of course, we buy from whatever source will supply us with the best possible movies at the best possible prices.

Mr. RYAN: The thing that disturbs me is that it seems to be so far out in respect of the estimate on the basis of the last few years.

Mr. OUMET: On the basis of these two years, I think, in the first case—and Mr. Davies might explain this more fully—there was an error in the estimating, to start with, because we were basing our estimate for the following year on the first six months of a year that was not finished. We guessed wrong on that one and our estimate was out. Also, we had some additional costs.

Mr. Davies may have more information in this respect.

Mr. DAVIES: I could give you the total analysis we supplied to the finance committee and the board in respect of this \$944,000. It is made up in two large pieces.

Mr. RYAN: Perhaps it could be tabled in order to save time.

The CHAIRMAN: Is it lengthy?

Mr. DAVIES: No.

The CHAIRMAN: Then, we could have it read into the record.

Mr. DAVIES: There was an error of \$424,000 in the estimate cost. The base that was used for the budget was under the actual; in other words, we had the actual in 1960-61 coming out at \$8 million and our estimated achievement, which we had used, was some \$400,000 below this.

There was another item which resulted from the increase in the French network service to equate the English and French services in Montreal to 85 hours a week, which cost some \$520,000 to give a total of \$944,000.

The CHAIRMAN: Would you proceed now, Mr. Cardiff.

Mr. CARDIFF: Mr. Chairman, I have a couple of questions.

Has the C.B.C. any control over private station revenue?

Mr. OUMET: Speaking generally, no. In respect of private stations that are affiliated with C.B.C. networks our decisions have an effect on their revenue in the sense that if we sell more of our network time they get a greater share of it. I should say that they do not get a greater share but a greater return. If we sell less, then they get lesser return. I do not know whether or not this is what you mean by control.

Mr. CARDIFF: Do all private stations use the C.B.C. network?

Mr. OUMET: No. I would say that only about one half of the private stations use the C.B.C., including radio.

Mr. CARDIFF: Well, I have one in my riding and this is why I put the question. We have a good radio station there.

Mr. OUMET: They are part of our network which give us their facilities, which is an advantage to us. They carry our programs and they have the advantage, of course, of being supplied with a large quantity of programming, and when these programs are sold they get commercial revenue, so that is where our decision may affect them. If we sell more network time they get more money and if we sell less network time they get less.

Mr. CARDIFF: I would like to state at this time that we have a manager there who deserves a great deal of credit. He started with nothing and now he has 90 employees. He installed television facilities just about three or four years ago. As I say, he had a hard row to hoe, but he paid his way. He is a very fine fellow. He did more for that community than any other one man.

Mr. FORBES: I have a supplementary question, Mr. Chairman.

The CHAIRMAN: Mr. Forbes, we will put you down on the list. Subject to the committee overruling me, may I say that members can develop a line of questioning anywhere within this particular framework.

Mr. FORBES: My question refers to affiliates.

The CHAIRMAN: You will follow Mr. Wahn.

Would you proceed, Mr. Harkness.

Mr. HARKNESS: In connection with this matter of revenue from sale of advertising, you told Mr. Fisher that some programs are not saleable. I always have insisted that everything is saleable at a price and I wonder whether a lot of these programs are not saleable because of your pricing policy?

Mr. OUMET: Well, it is probably true that if we sold them very cheaply—it would be in terms of cost per thousand per commercial minute, which is the way the advertisers assess the value of these possible buys—they could be sold. But, on the other hand, we get into other difficulties because there are certain recognized rights for certain types of programming, half hour and one hour, and we soon would be charged by the private stations with unfair competition if we go too far in this respect.

I might say that in respect of the example I used, namely chamber music, I have not heard of any sponsor who would be inclined to purchase it at any price, even though it has a very intelligent audience.

Mr. HARKNESS: But that would constitute a very small proportion of your programming, particularly in television.

Mr. OUMET: Yes. I must admit I picked a good example.

Mr. HARKNESS: Yes; that was on C.B.C. radio. But, one of the reasons I am particularly interested in this is that the Glassco commission report is pretty critical of your corporation so far as its sales effort especially is concerned. They state particularly that their commissioners believe, if the corporation is to continue its commercial activities and rely on them for a substantial part of its total revenue, the factor that overrides all other considerations is the necessity of building up a strong sales organization from coast to coast. It goes on to state that nobody at headquarters in Ottawa has any real authority over the sales organization in the field, and instructions are too frequently flouted with impunity. Has there been any action taken to change this sales organization and to divorce sales from regional and network management from the point of view of general management?

Mr. OUMET: No, not yet. But, at the moment we are making a very extensive study of that possibility. I am not in a position to say yet whether we will or will not do it. I must say that the statement that you have just quoted, that nobody has any authority at headquarters over the sales efforts, is not a correct one. There is the sales manager in the field who reports to the general manager of the sales division to which he is attached. What was meant, I think, is that there is no corporate sales manager or general sales manager in Ottawa to whom the various sales managers report. But, that is not the same thing as to say that nobody at head office has any authority over the sales manager in the field.

Mr. HARKNESS: The complaint which the commission made on what they found was that there seemed to be almost two separate lines here and no good co-ordination between them. For instance, they say that:

The attitudes of operating officials in the field show wide variation. Some disapprove in principle the carrying on of commercial activities—others may be overzealous in seeking revenue.

This is exactly what they are talking about. This appears under the paragraph on sales organization where they say that:

A characteristic of the corporation's sales effort is the previously noted lack of a positive policy with regard to commercial exploitation.

Mr. OUMET: We did not understand what they meant by this statement. We have some very clear policies with respect to our commercial sales. I have given you, just a few minutes ago, a list of the things that we will sell, and the things that we do not sell. We have targets every year. Except for the year when we were really hit by the advent of the second stations, we have always achieved our commercial targets. Our commercial policies have been discussed by many parliamentary committees, they are still under discussion at the moment. I think we know exactly where we are going. The trouble is that there are many different ideas about what our policy should be. Recently, in submitting the report as one of the members of what is called the troika committee, I have made a recommendation with respect to our commercial activities. Dr. Stewart has made another recommendation. He believes that we should be out of the commercial business. It has been like this over the years as far back as I can remember. The Massey commission had us withdraw to a great extent

from commercial activities. The Fowler commission had us become more aggressive. This goes on all the time, and that is where you get this impression of uncertainty. However, as far as we are concerned, we know exactly what our policy is at any time, and we try to follow the wishes of parliament.

Mr. HARKNESS: But what they are speaking of here is not so much a matter of policy as a matter of how the sales organization is set up and carried out. Of course this particular committee is particularly concerned with the revenues and expenditures of the taxpayer, and when we see here \$26 million worth of programs available for advertising from which there is no revenue, it naturally gives rise, in my mind at least, and I would think in most other minds of members of the committee, to concern on why there is no revenue coming from this. As I said before, it would seem to me that it must go back to pricing and general sales policy and organization.

Mr. OUMET: There are also other factors. Generally in Canada—not only for us but also for the private stations—it is very difficult to sell programs in the afternoon. Now, with time the sales possibilities will be developed, but at the moment it is very difficult to sell those programs, and the private stations have the same problem as we have. Their revenue is made by having a great number of spot advertisements. In our case, where we are making a great number of programs because we are a network operation, these programs cannot be sold. The only thing we could do is to multiply the spots between the programs, but there again we have a general policy in the corporation to try to avoid cluttering up the space between programs with too many spots. Having made surveys of public opinion in this respect, we know that the public does not like to see too many spots.

I do not know whether I have answered your question to your satisfaction.

Mr. HARKNESS: I still wonder very much about this \$26½ million program on which there was no return.

Mr. OUMET: May I add one more factor. In prime time in the evening we are sold out, but we make all kinds of programs as a public service that will not sell, although we have no objection to selling them. I think this is the whole key to the discussion here today, and that is our decision to make programs or not to make certain kinds of programs is based entirely on our program objectives, the mandate of the corporation. Our commercial activities are a means to get more money, to reduce the total demand on public funds, but we are not making our programs in order to sell them—that is not our primary purpose. We are making our programs to serve the various tastes of Canadians. If they will sell, so much the better and we make a maximum sales effort. In other words, we are not a commercial operation, we are a public service.

Mr. HARKNESS: Actually, you are a combination.

Mr. OUMET: We are a combination with the accent and the priority on the public service side. Our commercial activities are secondary, and it is a secondary objective of the corporation. It is a means to an end, and the end is to reduce the total demand on public funds. If we go too far in getting commercial revenues and in doing so we no longer attain our primary objectives of public service, then we are not doing our job.

Mr. HARKNESS: But you have here this \$37 million worth of public service programs which you refuse to sell to advertising which looks after that end of the thing to a large extent. From these other programs in which you have no objection to advertising it would seem to me that with a better sales organization and a better pricing policy and better methods you could get a considerable amount of revenue.

Mr. OUIMET: Frankly, I do not think there is much that can be done in that area along the lines you suggest.

Mr. HARKNESS: I would suggest that if the general attitude of the corporation is that there is not much that can be done, then nothing will be done. It is like everything else in life; if there is no wish to do the thing, it just will not get done.

Mr. OUIMET: I have not said there is no will, but I am speaking from experience of trying to sell such programs for many years. In order to sell a program it must be competitive with other media in terms of the cost per thousand per commercial minute of advertising, otherwise you do not sell it. There is a limit to how much we can lower the cost on this because then we get into the other pitfall where we get accused of subsidizing sponsorship, as we were in the parliamentary committees of 1959 and 1961, and we find ourselves pressured on both sides.

Mr. HARKNESS: I realize there must be a balance in that regard, but it seems to me that when you have this large potential available source of income, it should be exploited to a greater extent than it has been.

Mr. OUIMET: You are assuming that it is not exploited. All I can say is that we are doing our very best. We have no objection whatsoever, as you can imagine, in not selling programs that can be sold if it does not interfere with our primary objectives. The more money we get, the less we have to get from parliament, and the easier our job becomes because it is not easy to get money from parliament. The more money we get from commercials, the more programs we can make and the more service we can get. All our interests are in selling more as long as it does not interfere with our primary objective. But we are at a stage where we have to be very careful that our sales effort and commercial enterprise do not interfere with our major goal, which is public service.

Mr. HARKNESS: The basic point there is that we as a committee are investigating these very matters of saving the taxpayers' money, and so forth. The Glassco commission reports very definitely that your sales organization efforts are not anything like as good as they should be, and this is something to which I think we are entitled to get an answer. I do not think it is satisfactory just to say that you do not agree with what the Glassco commission reports.

Mr. OUIMET: I find myself in some difficulty here because I have to say there are certain conclusions in the Glassco report which I believe do not apply to the kind of organization we are. If it were a commercial operation, there would be no difficulty at all; but in our kind of operation we find it difficult to carry out the intent of their conclusions and observations, and at the same time carry out what we have been asked to do by parliament.

Mr. HARKNESS: But, you have a sales organization, and the report on your sales organization is to the effect that it is badly organized, if not inefficient. These are the things in respect of which we should have answers. We should know what changes have been made, or if no changes have been made, what you propose to do in an effort to make it more efficient.

This morning we were on the matter of incentives and at that time you said you were hoping to put in more incentives. You said you actually had provided some type of bonus incentive in Montreal and Toronto, which I am very glad to hear. I say that this is the kind of answer I think we should have.

Mr. OUIMET: I also said we were studying in a very thorough fashion our internal organization. This is one of the aspects of the organization under study. I have said that we could not give you an answer on this until some time later

this year. I just am not in a position to say yes or no to any particular organizational proposition because we are not yet at that stage.

Also, there is an advisory committee, of which you heard, which is studying the studies that we are making of our organization; that is the committee under Mr. Fowler.

Mr. HARKNESS: Still, this report was put out a year and a half ago, and I would think at this time, after 18 months you would have some pretty definite answers with regard to the various criticisms which are made.

Mr. OUMET: I thought I had given you as complete an answer as possible. I do not know what else I can say to you. You want me to agree with your observation, and I am not in a position to agree.

Mr. HARKNESS: I would expect you to have some definite proof that any of these particular observations are wrong, or otherwise tell us what you have done along the lines recommended, as you have in connection with providing some bonuses for incentive to salesmen.

Mr. OUMET: I think, to deal with your question effectively, would really mean an analysis of all the programs which are in this category of saleable but not sold. That could not be done very easily; there are thousands of programs there. I think we can say that many of those programs are not designed for commercial purposes, and that is why they do not sell; they are not commercial programs; they are made to serve minority tastes. That is part of our job. We have no objection to selling them, but nevertheless they are not commercial programs.

Mr. HARKNESS: My next question is somewhat along this same line, but comes back to one of the statements you made a while ago. One of the observations of the Glassco commission is:

Your commissioners believe that the potential sale of cultural programs to prestige advertisers is not being fully explored, and that the corporation should reconsider its policy in regard to minimum program cost recovery.

Has there been any review of your policy in this regard?

Mr. OUMET: It always has been our policy to sell those programs. We sold one or two programs to the Canada loan drive seven or eight years ago. More recently it has been a little less difficult to sell those programs. We have sold some of them to the Bell Telephone Company and the Aluminum Company of Canada. I must say we have sold them at a considerable discount.

Mr. TARDIF: There may be a conflict of policy. It may be the policy of the advertisers not to buy these because they do not think there are sufficient listeners.

Mr. OUMET: That is what I was saying. The advertiser will not buy unless he receives a sufficient return on his investment to justify buying the program rather than use a poster or advertise on a popular program such as "Country Hoedown", or "Don Messer". Here we are speaking of fairly expensive prestige efforts. I could not agree more with the thought that if the advertiser would see the great benefits—

Mr. HARKNESS: This, again, comes down to a price policy. How often do you review the pricing policy with regard to these?

Mr. OUMET: Our pricing policy with regard to these major efforts is quite a flexible one. We try to get the maximum that the market will bear in these areas. Mind you, however, you are pursuing an idea for which we were very severely criticized in 1959 and 1961. We were told then we should not sell anything at a cost which is below the cost of production. Now the suggestion is that we go completely the other way.

Some of these programs cost \$50,000 or \$600,000 and, of course, we cannot possibly get that return. In certain cases we have got back \$20,000. We would have to do it anyway, and we are glad to get the \$20,000 back.

Mr. HARKNESS: Certainly half a loaf is better than no bread.

Mr. OUMET: I am certainly glad to hear you say that. If you had been on the 1959 broadcasting committee, you would have saved us a lot of trouble.

Mr. HARKNESS: I have another question in connection with broadcasting. One of the statements of the Glassco commission is:

—the final budgets are based on what it cost last year plus an estimate of additional requirements, with no searching analysis of last year's costs. They possess, therefore, little real value for purposes of planning as effective instruments of control.

Have you made any changes in your budgeting procedures as a result of that observation?

Mr. DAVIES: Yes. I think this comment dealt primarily with the over-all budgeting of the corporation with regard to the way we had to go to the treasury board at that time. As I mentioned, we were going around October, which was six months before the year started, and at that time we were in a situation, because of the changes which had been taking place, where we were relating an over-all value, much as has been suggested in the Glassco commission report. We have since developed that into the situation where we are moving planning much further ahead, in other words, in order to determine the objectives of the programming, and to develop more fully the program plans that are ahead. As you will appreciate, this is a relatively difficult task and has to do with the use of averages that you develop on an historical basis.

One of the reasons we could not get at this before was that we did not have sufficient information. The new system of accounts had only been developing over about three years at that time. Now, after this is established, there is a whole system of budgeting within the corporation on a decentralized basis through its accounting offices in relation to its managers, and to each department. There are some 600 to 700 individual departments throughout the corporation and in each one of these the department head sets up the budget of his own departmental expenses using information supplied to him through the accounting office. Then he checks it out and looks at it just the same as in every other industrial company. These are finally brought together and tied up in a management budget, which, being established at a date later than the one which had gone to the treasury board, really forms the basis of the management budget of the corporation which is used to measure the results, and the actual figures as they come forward each month.

Mr. HARKNESS: Have you any observations you would like to make, Mr. Henderson?

Mr. HENDERSON: You are speaking about the budgeting question?

Mr. HARKNESS: Yes.

Mr. HENDERSON: I can confirm from my own knowledge what gave rise to Glassco saying this, because the paragraph you are quoting from points out—and this was in effect at the time the Glassco people examined it—that the financial planning and the budgeting functions were split. Mr. Davies described how the entire budgeting function has been transferred to him as comptroller, and that is where in my opinion it always should have been.

Mr. HARKNESS: I am glad to hear you say that, because it would have been the basis of my next question, whether a split in the budgeting authority had been wrong.

Mr. HENDERSON: The description which Mr. Davies gave you of the budget process is the way in which he and the officers of his comptroller's department handle it. It is under a unified head. I found his explanation to be quite adequate in that respect. I think it is correct, is it not, Mr. Ouimet, that the responsibility for the total budgeting, and the preparation and co-ordination of it now rests with your principal financial officer?

Mr. OUMET: Yes. If I remember correctly this was done while the royal commission was making its study. It is all in Mr. Davies' hands now.

Mr. HARKNESS: There was mention made to the effect that there was organizational overlapping in the two procedures. One represented the vice president of administration and the other represented the comptroller, and they were performing the same or similar functions. I understand that this has been corrected as well.

Mr. OUMET: This has already been modified, and the whole of these functions is now in the hands of the comptroller, and the management of it also.

Mr. HENDERSON: I might add that in my 1960 report on the operations of the corporation which was tabled before the broadcasting committee on June 1, 1961, I had a number of recommendations to make, and this was one of them, and, as Mr. Ouimet just stated, this has since been adopted.

The CHAIRMAN: Now, Mr. Wahn.

Mr. WAHN: Mr. Chairman, Mr. Ouimet emphasized that the primary obligation of the C.B.C. is to perform a public service and not a commercial service. I personally am completely in accord with it. It seems to me that the only justification for the \$73 million grant from public funds is to pay for public service programming, and that there is no justification for the expenditure of any part of the public grant merely for the purpose of competing more effectively with privately owned stations. I hope my question to Mr. Ouimet will not be regarded as an attack on the C.B.C. on another flank, because it is not. I wish to support the C.B.C.

Mr. HARKNESS: At this point I would just like to make it clear that anything I have been saying, I hope, will not be interpreted as being an attack on the C.B.C. I have been asking for explanations of various findings which were made by the Glassco royal commission, and of the figures which were produced. I hope that the inference from my remarks is not to be that this is an attack on the C.B.C. This certainly would be the inference that I would take from what was said a moment ago.

Mr. WAHN: Let me assure you that that was not my intention. I merely wanted to be sure that my questions would not be considered as an attack on the C.B.C. I am concerned about the functions which the C.B.C. perform and which Mr. Ouimet emphasized, and that their functions should be the provision of public service programs, and that the C.B.C. should not attempt to be a commercial service or to compete in a commercial way in this area where private stations already are well established.

My first question of Mr. Ouimet is: Does the fact that the C.B.C. actually own a large number of outlets both radio stations as well as television stations put undue commercial pressure upon it to fill up the time? Perhaps I might explain my question a bit. It must be rather difficult to fill up a complete schedule of owned radio or television stations with programs which would be regarded as of public service nature. Perhaps I might put it another way: Why is it necessary for the C.B.C. actually to own physically radio stations and television stations in urban areas where there are already adequate physical facilities owned by private stations? We all know that a radio licence and a television licence are considered very valuable franchises.

If time is required by the C.B.C. for public service programs, why cannot such time be made available either as a condition of the granting of the licence, or by rental from the privately owned station? Is it really necessary for the C.B.C. in an urban area to own the outlets that it now owns, or does it put commercial pressure upon them to project what Mr. Ouimet emphasized as the primary obligation of the C.B.C., namely, to provide public service programs.

Mr. OUIMET: I think we are dealing here with really fundamental questions of policy of how to run a national broadcasting service. To answer your question directly I would say yes, absolutely, it is necessary to have C.B.C. outlets. I think one of the best ways to diminish the effectiveness of the national service would be to deprive it of its outlets.

I am not at the moment proving this point, but I am making the statement. There is one thought that I think was present in most of the questions you asked, and that was the thought that there are some things which the C.B.C. do which are a public service, and there are other things which we do which are not a public service. I must say to you that we do not make that distinction. When we provide programming, it is balanced programming. We have to serve all tastes. Now, tastes vary a great deal. So we may have something which is very serious, very solid, very thought provoking, and we may also have as necessary ingredients programs which will be diverting, which will be very light, which will perhaps have very little for the mind, but nevertheless they are a public service.

In many areas the C.B.C. is the only service available. In all areas which are not commercially profitable the C.B.C. provides a service, and must provide a full service. In many areas no one else would provide that service because it is not commercially advantageous.

Mr. WAHN: My question was directed solely to those areas where there are existing commercial facilities. I refer to areas such as Toronto.

Mr. OUIMET: Your question was based on the idea that it might possibly save quite a bit of money to provide programs only for feeding networks of private stations. We are already in a position of being obligated to provide services to many stations which have no other source of programming, so we have a full program available at the beginning and, it does not cost any more to provide it to others. Furthermore, operating a station is not the costly part of programming. If you look at the annual report you will see that the production of programming is costly, the distribution of programming is costly, particularly in a country the size of Canada, whereas the transmission of programming is a rather small percentage of the total cost. We would not gain anything of importance by using this system and would lose a great deal by reducing the effectiveness of our distribution. We distribute a great deal more programming through our facilities than we ever could through private stations.

Furthermore the private stations, while they have been most co-operative in accepting many programs which you might not put in the category of commercial programs, in the sense that they are not planned for the maximum audience, can not accept many of the programs that we carry on our own stations. Take the French network as an example, I imagine we have something like 70 or 80 hours of programming out of which perhaps the affiliates carry 45 or 44 hours. In respect of the English network, we sent out about 57 or 60 hours of programming of which that network will carry about 44 hours. The programs not carried by those networks are usually those programs which would be in the category of public service.

Mr. HARKNESS: All these remarks you have made are made in respect of television?

Mr. OUIMET: I am referring to television. In the case of radio effectiveness our distribution is much less. The affiliates will carry only 25 to 26 hours per week of our total output of programming.

Mr. HARKNESS: That is the impression I had; hence my question.

Mr. OUIMET: I think we have a tendency to think too much of television at times.

Mr. WAHN: Why must you rely on private stations to voluntarily carry your programming? If you did not physically own the stations in urban areas would it not be cheaper to rent time? I understand why the C.B.C. must own its facilities in areas where there would otherwise be no radio or television stations, and I am not referring to those areas. My remarks are directed solely in respect of areas where other facilities would be in existence even if C.B.C. did not provide a service. Would it not be cheaper for the C.B.C. to rent time and provide specific public service programs, and I refer to programs of a type which would not otherwise be put out by privately owned stations. I appreciate the fact we need this type of programming, but is it necessary for C.B.C. to put out a program of the nature of "Hit Parade", for example, which is of a type we all know private stations will provide in ample quantity?

Mr. OUIMET: I think the C.B.C. has to put out a program of the nature of "Hit Parade", although we do very little of it compared to private stations, because we have to feed our networks, which cover the whole of Canada including many areas where there are no other stations, but where the people have the same tastes as people living in larger centres.

Mr. WAHN: I agree it is necessary for the C.B.C. to provide that type of program to areas in the Northwest Territories, but is it necessary to feed that type of program to Toronto where there exist five or ten stations?

Mr. OUIMET: What would be the advantage of not feeding out these programs since the programming is already paid for?

Mr. WAHN: If you did not own facilities in Toronto you obviously would not rent time in Toronto for the purpose of putting out such a program because Torontonians already receive these programs through other stations. My remarks are directed to the very simple question, why does the C.B.C. have to own radio and TV stations in urban areas? I ask that question in good faith in an endeavour to acquire further information. Why can you not rent time?

Mr. OUIMET: First of all, as a completely national service, we feel we must have something for all tastes, and to follow your suggestion we feel would not be effective and would cost a great deal of money.

Mr. WAHN: Has a specific study of that situation been made by the C.B.C.?

Mr. OUIMET: Yes, such a study has been made over the years but not in terms of attempting to calculate the relative costs of schemes A, B, C and D. This has been a matter of discussion for the last 15 years. It was discussed before the Fowler commission in 1955 and before other committees. It was discussed by the troika committee. By the way, there is no other national service in the world which works on the basis you suggest. That information might not be important but it is revealing. We do not think that the national service would be viable on such a basis, and the answer to your question is that simple. Our feeling is very basic and fundamental. We think quite frankly that the best way of diminishing the effectiveness of the C.B.C. is to turn it into a program production agency à la national film board, for example. Of course there have not been very many suggestions of this type made except by some of the more extreme right wing private broadcasting stations, and we think to follow such a suggestion would be disastrous.

Mr. WAHN: Can you give us any reason for your feeling in this regard?

Mr. OUIMET: I thought I had given you the reasons. You were referring to programs which are popular. Let us now deal with television which is the most expensive aspect of our service. C.T.V., for example, which is a private network, provides a variety of programs, but does not provide a complete service of programming. They provide sports; they provide hockey and they provide football; they provide quiz shows; they provide syndicated films. I do not know whether they provide movies or whether they are provided locally. They do not provide any major variety shows; they do not provide any major drama shows and, in other words, they are very limited in what can be done simply because no sponsor will pay more than say, \$7,000 an hour for the programming that they put on. The same situation exists with us. We have the advantage of public funds to support us, and we are able to produce the rest. A "Parade" program is a light entertainment program and I think, in your definition, should not be produced by the C.B.C. If that is the case, then it would not be produced in Canada and there would be no Canadian variety of high quality. The same applies to drama. I am sure you would agree that the C.B.C. should produce all of these programs.

There is a great advantage in operating a station. If we are to be in Montreal with 2,400 employees or in Toronto with 2,300 employees to produce the programs we have to produce, it is a very simple matter to have another 90 or 75 employees—I do not know exactly what it is—to provide the local service of the local station. This keeps us in direct contact with our audience, and we need that contact in order to know exactly what is the feel or to know what is the reaction. It is very difficult to get that when you are distributing through others.

Furthermore, by having stations in Vancouver, in Winnipeg, in St. John's, Newfoundland, or Chicoutimi, we are able to develop talent at the local level that eventually may prove good enough to move the national level. All of this is tied together, and to try to do a public service job—which the C.B.C. is trying to do—exclusively through commercial private stations is trying to merge together two things which are not entirely compatible or cannot be reconciled to that degree. I think we have achieved in Canada a wonderful system, a wonderful mixture of private and public enterprise. I think we have about the most that we could get out of that marriage, but we cannot go any further because then we would come in conflict with one another.

Mr. WAHN: In your annual report for 1961-62, under the heading of television, on page 18 it is stated:

In television, the national service is also distributed through the co-operation of C.B.C. and privately-owned affiliates. The national service is distributed in full to between 55 to 60 per cent of the population through C.B.C.-owned stations.

Co-operation between the C.B.C. and its television affiliates has always been high, with the result that about 80 per cent of the national service is carried by the affiliates.

I presume that means privately owned stations. Why is it then necessary for you to have a television station specifically, such as Toronto?

Mr. OUIMET: In order to give a better service to the people of Canada generally. Being in Toronto, it does not cost much more—this is the smallest part of our costs—and it gives us this contact with the public which is so necessary. We can test local talent on a local basis, and then we can put them on the network.

Frankly, I am intrigued by your thinking on this question because it is a matter of public knowledge now that when Dr. Stewart, the chairman of the board of broadcast governors, and Don Jamieson, the president of CAB—all the private stations—and I got together to try to think out what the ideal system would be, this is one point on which we were all in agreement. We agreed that the best way to serve the public in any area was by a combination of a C.B.C.-owned station and a privately owned station, and not by having two privately owned stations. That took in the thinking of the private stations themselves, the regulatory board—the board of broadcast governors—and the C.B.C. Therefore, you can see a lot of thought has gone into this. It is a complex matter to explain, but we are very strongly convinced that this is one of the basic fundamentals of broadcasting in Canada which should be preserved.

Mr. FORBES: Mr. Chairman, Mr. Harkness asked most of the questions pertaining to the Glassco commission report in which I was interested, but I have one more question.

We were discussing revenue a few minutes ago; and in the C.B.C. report you refer to the disaffiliation of a station in Hamilton and one in Edmonton. Is this due to the fact that your programming is too expensive? If not, why did you lose the affiliation with these two stations?

Mr. OUIMET: No. By the way, let me make it very clear that we do not charge anything to private stations for our programs, so it is not a question that our programs are too expensive. They get paid for the commercial programs they carry.

The disaffiliation of Edmonton was simply because the Canadian Broadcasting Corporation established its own station in Edmonton, and therefore the station that was there before became affiliated with the other network. Having our own station, we took our own programs. That is the reason for the disaffiliation of Edmonton.

Mr. FORBES: My question was based on the latter part of the paragraph where you say that the disaffiliation has resulted in cessation of revenues from these sources. That is the basis of my question.

Mr. OUIMET: This simply means that when we sell the network we sell C.B.C. stations as well as private affiliates, and we bill the sponsor for the total. We get that amount in and it shows in our books as a revenue; and we turn around and pay the private station, and it then shows as an expense. That is why there is this gross and net revenue here. The disaffiliation of Hamilton would thus affect our figures. If, for example, we have fewer affiliates, then obviously the payment to the private stations will be decreased, but so will our gross revenue be decreased—both the payment and revenue will be decreased.

Mr. FORBES: Why did these two stations disaffiliate?

Mr. OUIMET: In the case of Edmonton, because we established our own station and it was understood at the time that they would become part of the second network, the private commercial network. That is why they disaffiliated.

In the case of Hamilton, the reason was entirely different; and we opposed it. Hamilton claimed that they were not needed to provide the coverage in their area, that our station located in Toronto provided an adequate service. Obviously, they thought they could be better off financially by working as an independent station. We opposed this because we felt we were losing some coverage through the Hamilton station, but the board of broadcast governors when hearing the two cases decided in favour of Hamilton, and disaffiliated Hamilton.

Mr. FORBES: This ties right in with Mr. Wahn's question when he asked why you do not rent those services instead of putting up your own. I recall the Edmonton station. You put up the station there, and two services were provided in Edmonton when there were other areas in Canada which were not covered at all.

Mr. OUMET: Yes. I thought I had answered the question of Mr. Wahn to the best of my ability.

The CHAIRMAN: Gentlemen, it is now 5.15 p.m. We have made very excellent progress. It does appear that we will be able to complete this examination by Tuesday. Is it your wish that we adjourn now until eight o'clock?

Agreed.

EVENING SITTING

THURSDAY, July 2, 1964.

The CHAIRMAN: Gentlemen, I see a quorum; thank you.

We will commence proceedings now. We had been dealing with the various items contained between pages 2 and 9. When we adjourned shortly after 5 o'clock I do not believe there was any indication there were any further questions.

Have you a question, Mr. Winch?

Mr. WINCH: Yes, Mr. Chairman. I would like to ask one question. It may be that I have it all wrong because I am not an accountant. However, I was interested in the questioning and discussion relative to the costs of production and distribution, as it was broken down or explained by Mr. Henderson and discussed at considerable length by other members of the committee, with regard to the amount of revenue from what is available for sale but for which there is no advertising. I have been trying to find this information in the statement of operations of the corporation by way of a similar breakdown because I think it would be of great interest to the house and to the committee at all times to have in the financial statement of operations of the C.B.C. this type of information in detail and broken down. Have I missed this somewhere along the line, or is it not covered?

Mr. HENDERSON: You are referring to the figures on page 8, are you?

Mr. WINCH: Yes.

Mr. HENDERSON: That is, where I show the total amount of programs without advertising at \$63,586,267 of which \$26,516,801 is designated as programs available for advertising, and in respect of which I go on to show that the total cost of production and distribution of programs with advertising potential, therefore, is really \$55,318,533, comprised of this figure of \$26,516,801 shown in the table and \$28,801,732 shown as cost of production and distribution of programs with advertising. Consequently, gross advertising revenue amounted to only \$30,846,627; the difference of \$24,471,906 was thus required to be met from the parliamentary grant during the year.

Your point is perfectly correct, sir; the statement of operations which appears as exhibit 2 of the financial statements does not bring this point out. I have brought it out in my report to the directors this year.

I might say, Mr. Chairman, this raises quite an interesting question in respect of the manner in which the programs are listed. For some years now we have shown the cost of production and the distribution broken down between these two "advertising" categorizations. I think this would be for the past three or four years; that is to say, programs without advertising and programs with advertising.

What Mr. Winch is implying by his question, if I understood him correctly, is that he would like to have brought out on the financial statements this separate figure of programs which were available for advertising but which were not sold. In other words, if I understood him correctly he would like the statement to disclose the fact that there was a cost difference of \$24,471,906 which was required to be met over and above the public service programs.

Mr. WINCH: My problem was that I could not locate that.

Mr. HENDERSON: No. It is in the figure of \$63,586,267. It is only by reading my report that you learn that a portion of it represents programs which the corporation would have sold had there been customers.

Mr. WINCH: I think perhaps Mr. Henderson has worded it better than I did. However, basically, I would like to know whether it would be good accounting practice for this to be shown and, perhaps, with some degree of explanation so that members of the House of Commons and members of this committee could understand just exactly what is taking place in regard to this production and distribution.

Mr. HENDERSON: In other words, what you are saying is, could not this statement of operations be improved?

Mr. WINCH: Yes, so as to make it more understandable to persons like myself who are not chartered accountants.

The CHAIRMAN: Perhaps we could hear from Mr. Davies in this respect.

Mr. DAVIES: Mr. Winch, we make this split on the statement of operations in two large pieces, those programs that have advertising and those as a group which do not carry advertising. The ones that do not carry advertising are in the column entitled "programs without", and portions of these are those types of programs which are available but which are of a type that have not been sold despite our best efforts.

Mr. WINCH: That, I think, is my point here. To make it clear, of the \$63 million I cannot see the amount shown which is available.

Mr. DAVIES: It is not shown; it is included.

Mr. WINCH: Should it not be shown?

Mr. DAVIES: This is a moot point, sir. In our reports every month to the finance committee of the board and through to the board itself this type of disclosure is made in complete detail.

Mr. WINCH: We do not get that information.

Mr. DAVIES: No. This is not published information, if you like.

Mr. WINCH: Well, that is my point.

Mr. DAVIES: When you get to the stage of providing this sort of detail and the discussions that we have had with the Auditor General heretofore about the form of the statement it seemed to us that these two divisions would afford a disclosure without going into a great columnar arrangement. I think this is primarily the reason why these things were lumped. We believe, in the first instance, this is probably a management split for its own control purposes.

Mr. WINCH: But, would it not take only one or two lines just to show that of this amount of \$63 million—

Mr. DAVIES: It could be shown.

Mr. WINCH: —\$26 million represents productions which are not of the public service type as such in the broad principle of it, but are productions which are available for sale which have not been sold, although they might have been used.

Mr. DAVIES: Yes, but if I might suggest, sir, I think, judging by the discussion that has gone on in this committee concerning this amount and the

difficulty with it, it would seem to me that perhaps the better place to provide this information is through this committee where there would be an opportunity to discuss it because this figure can fluctuate and, therefore, showing this on the statement in published form would give rise to questions which could not be answered readily in the amount of detail that has been discussed here today.

Mr. HENDERSON: May I add something to that. I think Mr. Winch has raised an interesting point. Would you look at exhibit 2.

The CHAIRMAN: Excuse me, Mr. Henderson. For the benefit of the new members who were not here before might I indicate that we are now going through the 1963 long form report made by the Auditor General to the C.B.C. We are dealing with the paragraphs up to page nine, and we have attached the various exhibits which we have distributed. This is what Mr. Henderson is now referring to.

I am sorry, Mr. Henderson, I interrupted you but I thought it might be advisable to inform the new members of the committee what we are now discussing.

Mr. GRÉGOIRE: May I ask a question as I am one of these new members? Do we go through this document paragraph by paragraph?

The CHAIRMAN: We started by doing that, Mr. Grégoire, but we got as far as the third page and we then discovered that by reason of certain information on the third page we had to branch out. We therefore proceeded as far as page nine in the English text.

Mr. GRÉGOIRE: Is there no French copy of that?

The CHAIRMAN: The French copies are in the process of being prepared. They are not available at present.

Mr. GRÉGOIRE: When will they be available?

The CHAIRMAN: I should probably explain that these are private documents prepared by the Auditor General for the benefit of the C.B.C. In a comparatively short time it was decided we should proceed with this examination today and it was agreed that these documents would be made available. Only then did we discover that, as private documents, they were prepared only in English. Mr. Henderson's office is now engaged in having them prepared in French, and I think they will be ready very shortly, we certainly hope before the next meeting.

Mr. GRÉGOIRE: May I ask whether you usually require a French translation of your documents?

Mr. OUMET: For our own sake we accept the documents in the language in which they are prepared. When we provide documents for public use, they are generally provided in both languages.

Mr. GRÉGOIRE: Do the directors of the C.B.C. never require a French copy? Do they speak English well enough?

Mr. OUMET: We do not insist on getting a French copy for our work.

Mr. GRÉGOIRE: They all speak English well enough to understand the documents quite well?

Mr. OUMET: I think we do.

Mr. GRÉGOIRE: Can I then presume that all your discussions are held in English?

The CHAIRMAN: I think possibly, Mr. Grégoire, we are getting off the subject.

Mr. GRÉGOIRE: I was just finishing. I would just like my last question answered.

The CHAIRMAN: We will have ample opportunity to deal with this later. Probably, Mr. Ouimet, you might answer the last question, and having had this little diversion we can then come back to our subject matter.

Mr. HENDERSON: May I just say to Mr. Grégoire that as soon as Mr. Ouimet indicated that he would like the reports tabled in the committee, I at once arranged—that was early last week—to have them translated. However, they were unable to deliver them to me today, but they are promised for the next meeting.

Mr. GRÉGOIRE: Has the C.B.C. never asked you for a French text before?

Mr. HENDERSON: No.

Mr. GRÉGOIRE: How many French Canadians are there on the board who study these documents?

Mr. OUMET: There are three French-speaking members on the board.

Mr. GRÉGOIRE: Is only the board studying these documents?

Mr. FRANCIS: Mr. Chairman, I have a question of order. What is the scope of the questioning?

The CHAIRMAN: I think the point is well taken. Mr. Grégoire, there will be an opportunity later on when we deal with the board itself to bring this matter up again.

Mr. GRÉGOIRE: I have finished with my questions. I think this is a question of order. I did not want to raise this point of order but as I am asked to sit on this committee and I received this paper this morning only in English I feel that I have a right to ask this question. If I might say so, the point is completely in order and relevant to the situation. I can read figures in English as well as in French.

Mr. FANE: What are you talking about, then?

Mr. GRÉGOIRE: It is a question of principle.

The CHAIRMAN: You are quite right. When the documents were made public for use in the committee we attempted to have them made available in both languages, but as this was a private document made available by the Auditor General to the C.B.C., as Mr. Henderson said, we decided to proceed with the English text at this time and to prepare the French document as soon as possible. Unfortunately it is not ready at this time.

Mr. HARKNESS: The point was raised this afternoon, you will recall, and the explanation was given. I do not think we should continue repeating this same discussion.

The CHAIRMAN: We have had a reasonable discussion. Mr. Grégoire was not here so I attempted to explain it to him.

Mr. FISHER: Why?

Mr. GRÉGOIRE: I will tell you why, because I received notice of this meeting at the end of the afternoon.

The CHAIRMAN: Order, order, gentlemen. Mr. Henderson, would you mind continuing with your explanation please?

Mr. HENDERSON: Mr. Chairman, Mr. Winch had raised the question whether or not the statement of operations—that is to say exhibit 2 for the year ended March 13, 1963—might not afford a better disclosure of the results of these operations were the costs of the programs available for advertising but which were not sold shown separately. I indicated a moment or so ago that I felt he had a good point, and by way of illustrating it further, and subject to what Mr. Ouimet and Mr. Davies might have to say, may I explain that if you look at exhibit 2 you will see that the cost of the programs with advertising is shown in the statement at \$28,801,732, whereas under income,

the gross advertising revenue was \$30,846,627, indicating a gross profit before other expenses of approximately \$2 million. On page nine in my report I point out that if the programs available for advertising were in fact included, that difference would be considerably larger. The question therefore arises whether or not consideration should be given to making some appropriate changes in the statement in future which would bring out this situation. I am at all times concerned with the adequacy—as I must be—and with the standards of disclosure of any statements which I certify, and therefore I am always extremely interested in any comments like this, particularly when they come from the stockholders.

Mr. FISHER: I have a supplementary question. How would you clarify it?

Mr. HENDERSON: That is something which in the ordinary course we would work out with the management of the corporation. There are various ways of presenting this, such as presenting it across instead of in a columnar fashion.

Mr. FISHER: In view of what Mr. Ouimet told us this afternoon I do not see that. I mean no offence to Mr. Ouimet but it was rather a loose explanation. I mean that the explanation you have to give for this kind of program is generally rather vague.

Mr. OUIMET: I wish there was a way to divide clearly into two categories, or into three categories, that kind of program so that we could show the cost of those sold. This is easy. This is under the column, "Programs with advertising". However, when you come to the category of programs which are not sold and where you have two categories, one where there is a definite policy that prevents their sale, and then all the others, most of which could not be sold by anyone even if they tried to, it would be misleading to put those in a category which would show them as programs which could be expected to be sold. They cannot be expected to be sold, and that is our difficulty. We would require more than three categories. If you were to divide these programs in the way suggested, I think it would be more misleading than it is at present. That is why we have resorted to two categories which are quite clear, and we have not tried to divide it into three categories which would not be clear at all. There might be a way of doing it by dividing it into four or five categories but that would complicate the statement.

Mr. WINCH: Be honest. If you had even four or five, then you would have a true picture of what is going on.

Mr. FISHER: Not only honest; it certainly would relate directly to your program policy. It is one of the best interpretations you can get about where you are putting your money in terms of your programming.

Mr. OUIMET: By the way, the arrangement of the statement is not a question of trying to divulge more or less; this is not the problem. It is simply to provide something which will be accurate. This afternoon we had an example of the discussion which took place the minute we started to talk about the categories of programs available for advertising, but which were not sold. Immediately the conclusion was that these programs should be sold. Well, these programs are not made to sell. There is no objection to selling them, but they are not made to sell, and it is most improbable that they can be sold. Therefore, I do not see what the figure reveals. I think this is a misleading figure. We can try to use our imagination to find some way to get around this difficulty, but I do not think that way is the way which has been suggested.

Mr. WINCH: In view of what Mr. Ouimet has just said—and I think I have his words correct—they are there to be sold, but they just cannot be sold; therefore, on the basis that they cannot be sold, you have produced them and

therefore they must have a value strictly of public service, and could be included in your straight public service production and distribution.

Mr. OUMET: This is where we start having difficulty. There is no policy against selling them, but we are not making them for sale. They cannot be sold. You are suggesting, therefore, they should go on the other side with the public service type of programs as you call them. We call all of the programs public service whether commercial or otherwise, but for this discussion we will use your term. You can see that then we are involved in a question of judgment on the part of management in respect of what can, in fact, be sold and what cannot be sold. If this is what you are suggesting, of course this readily can be done. It must be somebody's assessment.

Mr. WINCH: That is why you are paid as the boss, to use judgment.

Mr. OUMET: We will be glad to do as you suggest. We can separate them in categories, which would indicate what, in the opinion of management, can be sold in order to assess the commercial sales achievement against that breakdown. That can be done.

Mr. WINCH: I think it is worthy of further consideration, at least along the lines we have been suggesting.

Mr. OUMET: I think it is worthy of consideration.

Mr. FISHER: Mr. Ouimet, do you remember that, after some difficulty, a few years ago the broadcasting committee was given a breakdown of the number of commercial programs which indicated that a number of them were what you might call loss leaders. Is that kind of information available to the Auditor General and his accountants when they are examining your accounts; that is, an analysis of the program list indicating which of the commercial programs do not have the advertising revenue coming in to meet their costs?

Mr. OUMET: So far as I know, all this information is available to the Auditor General.

Mr. FISHER: You never came to any conclusions, from your point of view, Mr. Henderson, about this phase of the commercial operations?

Mr. HENDERSON: It is because of the importance of this as well as my interest in it, plus the fact that I always hope that financial statements of this type will achieve reasonable maximum disclosure, that I expressed my interest in Mr. Winch's suggestion. Were these reflected along the lines Mr. Ouimet said, we might achieve what is desired in the statement. It is too early to speculate how it would be shown. It will not be possible to do it with regard to the statement of operations for the year ended March 31, 1964, because so far as I am concerned I have signed this statement and sent it to the Secretary of State. On the other hand, Mr. Stokes and I would like to sit down with management to see what we can do with regard to a similar statement for the year ending March 31, 1965, the now current fiscal year. All the information, as Mr. Ouimet stated, of course is available to me.

I am primarily, and must always be, concerned that financial statements such as these will be the truest possible reflection of the operations of the corporation, whether it is the C.B.C., the Export Credits Insurance Corporation, Eldorado Mining and Refining Limited, or whatever the nature of the business.

If we could achieve something like this, I think it would be a definite improvement on this particular format. Does that answer the question?

Mr. FISHER: Yes.

Mr. Ouimet, in 1960-61 the figures which I obtained at that time in terms of commercial revenue for the French network, radio and television, and the English network, radio and television, indicated that approximately 50 per cent of the programming costs was met in the English network by advertising revenue, and approximately 35 per cent of the costs in the French network

was met by advertising revenue. Do you have any indication whether there has been any change in this particular balance?

Mr. OUMET: I do not believe I could answer your question immediately, but we certainly can look it up and provide the information.

Mr. FISHER: As you probably know, this ratio of advertising revenue has become of interest in a larger sense than just of this committee as a result of some claims made by one of the unions in connection with the spending of the C.B.C. on talent in the various networks. I know you have issued a statement denying the claims of A.C.R.T.A.; but this is something else again. I wonder whether you or Mr. Henderson could tell us whether it would be possible to give a clear exposition of this kind of information in the annual report, or in the material the Auditor General provides so that we would not have claims of this type and would not have this kind of dissension developing over something which really relates to your spending policy.

Mr. OUMET: I think there is no limit to the extent we could go in providing information in our statements. We have been following a pattern which has been constant for many, many years. We can expand on this. I am just wondering whether this provision of information with regard to the breakdown between the French and English would not be followed by requests for information with regard to the breakdown between, say, how much we spend in the city of Prince Rupert compared to the city of Chicoutimi, and so on. I am just wondering where we are going.

Mr. FISHER: Let me put an argument to you. You have so much commercial revenue, and you have so big a grant for the department. You have your mandate, and there are certain things you have to do. I may have an obsession on the extension of service, but one of the things involved is the amount of money you have available. One of the sources of money you have available is commercial revenue. If one of the networks, the English network, for example, has more commercial revenue coming in, then it seems to me that it is on that line that you should consider spreading some of your money for the extension of service.

As I read the figures percentagewise, the French network does not bring you in as much revenue as does the English network; but in looking at the applications for the extension of service I find the C.B.C.—and I am not being critical of you from the objective point of view—has gone out of its way in carrying out its mandate in connection with operating a French language service for both television and radio in this country. Might I suggest to you that if English radio and television—particularly English television—bear a much larger proportion of its cost from commercial revenue, you should consider as policy that particular network and the extension of its services in those areas which are without them, and that they should be given some sort of priority?

Mr. OUMET: You have made a number of statements. I do not know if I can deal with the questions in the statements. But one which struck me particularly was the thought that the C.B.C. had gone out of its way to provide extension of French language service. Let me tell you that that is not the case. We have tried to provide services for both languages as we are required, and I think we use exactly the same basic formula to deal with the two extensions. I do not think you can say that there has been more done on the French language than on the English language. I would say that it has been done in relation to the needs. Now, as far as the English language coverage and French language coverage are concerned, I would say that at this moment the English language coverage is higher than on the French side.

Mr. FISHER: The last time you were before the committee you said that there was approximately—

The CHAIRMAN: I think Mr. Ouimet is still on his statement.

Mr. FISHER: I have figures here.

Mr. OUMET: I do not have figures such as this before me. I am working on the basis of my memory and subject to review. I do not think it is the other way around. Let us put it that way. You are suggesting now that we should distribute the service or decide on the allocation of money for extension of service on the basis of the ratio in the commercial revenue in the English as compared to the French network. That is not the policy of the corporation. I must say to you that our policy is an entirely different one. The policy of the corporation is to provide adequate service to all Canadians in both languages.

Mr. FISHER: There is nothing wrong about providing adequate service, but my whole point is that in extension of service, I want to contradict Mr. Ouimet in his point of view. I can dig out his speeches from my files. The C.B.C. in the last couple of years, and the president in particular, have been stressing the responsibility that the C.B.C. has accepted to extend provision of French television and radio throughout the country. You have this as an example when justifying the CJBC development in Toronto. I want to make it clear that I do not have any argument against this kind of extension; but you are in a set-up where there are priorities, and I would like to suggest that the commercial revenue which you have coming in from the English network should lead to a much stronger policy in extending service to English speaking people in this country who have not got it.

Mr. OUMET: We are spending at the moment—I think this is what you want to know, and I do not think there is any problem in making this information public—about one third on our French language service, and two thirds on our English language service.

Mr. FISHER: For extension of the two services?

Mr. OUMET: No, for everything.

Mr. FISHER: What about the extension of services?

Mr. OUMET: You ask about the extension of services.

The CHAIRMAN: Excuse me. I understand a request or suggestion was made that these figures be made available at a subsequent meeting in addition to the information that Mr. Fisher asked for previously. However, please carry on.

Mr. FISHER: I understand you will try to get us the figures. Now let us turn to something else that Mr. Ouimet said. He said that this commercial aspect, this commercial policy, and the revenue coming from commercial sources are really not the key to C.B.C. policy and development. I want to know why it is not, because I would assume that the commercial revenue that you get is important to your total, and that it is important in terms of the ratio of what you have to come to ask parliament for. What is wrong with considering an increase in commercial revenue in terms of extension of service?

Mr. OUMET: You mean to say that the more commercial a network could get, the more it should extend its services?

Mr. FISHER: Yes.

Mr. OUMET: I do not think this is the basis on which we operate our public service.

Mr. FISHER: I know, but is it a bad point to look at?

Mr. OUMET: It is not. But you are suggesting an entirely different basis for operation than the one we have been following over the years.

Mr. FISHER: How can you determine then whether you have a good, aggressive, commercial policy?

Mr. OUMET: I think we can determine it in other ways than by using this rather unusual approach, I must say, to the servicing of a bilingual country.

Mr. FISHER: Let us forget the bilingual part of it. You went into Edmonton with a television station.

Mr. OUMET: That is right.

Mr. FISHER: That is a major market area. Surely one of the reasons you went there with the scope of operations that you did was that you knew there would be some commercial revenue available to you there.

Mr. OUMET: That is right; that is one of the factors, yes. But we go to many places, English or French, where there is no commercial revenue expectation, and we do it as a public service.

Mr. FISHER: There is a critique that exists of the C.B.C. in terms of the amount of money that it gets from parliament and that it requires, and also from its advertising and commercial policy. How can we ever pin down how good you are in the field of your commercial policy and the revenue you are getting if we have all this vagueness, the vagueness represented by all these policies of having programs available for advertising, but ones which are unlikely to be sold? How can you extend your service in connection with commercial revenue that may be available?

Mr. OUMET: We do not extend our services in relation to commercial revenues available. This is one of the factors, but it is not the dominant or determining factor. As you know we extend our services generally on the basis of the cost per capita, considering all the factors. And to pin it down to commerce, I think, is not only a new approach, but I think it is a wrong approach.

Mr. TARDIF: Mr. Chairman, surely we are now discussing policy. I do not think this falls within the terms of reference to this committee at all.

The CHAIRMAN: Order, gentlemen. Does someone raise a point of order?

Mr. FISHER: If someone raises a point of order I would be glad to speak to it.

Mr. TARDIF: I can raise it on a point of order. We are here not to discuss the policy of the C.B.C. There is no use in discussing whether one person speaks ten words more in French or in English.

Mr. FISHER: I have not suggested anything like that. My reason for asking questions in this area is—and I would point out to Mr. Tardif that I am not trying to swell my head, or anything—that I have been following the C.B.C. closely for seven years, particularly in the broadcasting committee, and one of the chief difficulties I have always encountered is to try to understand the C.B.C. annual report. At times the officials of the C.B.C. tell each one of us that we are shareholders and give us a sort of per capita figure in respect of what we are receiving. However, I am most delighted that the Auditor General has now given us a report which enables us finally to see a little bit more of the pattern of the C.B.C. in terms of commercial policy, indicating where it spends its money and how it is budgeting.

I should like at this time, when this subject is before the committee, to try to relate the commercial policy to the information we have received. I think we have already made some progress as a result of the suggestions brought forward by Mr. Henderson, and I think the manner in which C.B.C. looks at commercial revenue from a policy point of view is relevant. If the C.B.C. receives one third of its income from advertising revenue that is a very important source. I think we need to know what the policy is, and we need to know that policy in depth. I would suggest as a result of the answers I have received from the president that we are still very much in doubt in this regard.

The CHAIRMAN: Do you wish to speak to the point of order, Mr. Grégoire?

Mr. GRÉGOIRE: Yes, Mr. Chairman, because although I perhaps do not agree with the point Mr. Fisher is attempting to make, we are analysing the budget of the C.B.C. and in doing so may find holes in its commercial policy. We would like to know the reason for the existence of these holes and I think we should be entitled to question the president of the C.B.C. in that regard. For those reasons I believe Mr. Fisher's question is in order. If we are here only to ask questions in respect of a mathematical problem, then we are not needed. Such a function should be carried out by an accountant. I think what is involved here is more than a mathematical question. This is the public accounts committee and our inquiries involve the reasons why there exists such a margin between revenues and expenses of the C.B.C. I think Mr. Fisher is entitled to ask the questions he has asked.

Mr. TARDIF: Mr. Chairman, in respect of the point of order, this subject was discussed this afternoon on several occasions and, as has been said by the president of the C.B.C., it involves a matter of policy inasmuch as we tell the C.B.C. to do something and it does what we have told it to do. On occasions the C.B.C. is asked to perform a service which is not commercially economical but involves a service to the people of Canada.

Mr. GRÉGOIRE: I think the angle touched upon by Mr. Fisher had relation to potential commercial advertising rather than programming quality or something else.

Mr. FISHER: I am willing to accept the suggestion made at this time by Mr. Grégoire. I am talking about periphery. In terms of revenue and income. I am sure the provision of service to Churchill or Wawa is not going to bring in any increment of revenue, but there is another area involved. If the questions I ask have already been asked I trust the Chairman will rule them out of order. There is one other area in connection with commercial policy in respect of which I would like to comment, and I refer to competitive stations that exist in the majority of markets for commercial revenue, which are available to the C.B.C. and the so-called second stations. According to the latest B.B.G. report these stations are taking in between \$22 million and \$24 million per year in revenue. I should like to know how much of that money Mr. Ouimet thinks the C.B.C. can capture or recapture as a result of a more aggressive policy.

Mr. OUMET: I think the C.B.C. could capture the whole amount but we would then no longer be the C.B.C., or a national service. The C.B.C. would not then be needed. What would be needed then is another private network.

Mr. FISHER: How can we be sure in this area that you are meeting the kind of standards you should meet in financial terms because whenever the officials of the C.B.C. are questioned in this regard we receive statements, such as Mr. Fisher gave us not long ago, to the effect the C.B.C. is competitively advantageous to the commercial t.v. stations in that it does not go out of its way to force them out of different areas. I suggest we need to know exactly what the policy of the C.B.C. is in this regard, and what are the expectations.

Mr. OUMET: I take it your question in this regard is, how do you find out exactly whether the C.B.C. is doing a proper job in relation to its mandate and in relation to its expenditures?

Mr. FISHER: Yes.

Mr. OUMET: I would say that you have to consider very carefully the program balance and program mix. First of all you must consider very carefully the mandate of the C.B.C. and decide first whether we are carrying out that mandate and then, in carrying out that mandate, you must find out whether or not we can, without jeopardizing that mandate in any way, make

more commercial revenue. I do not think an answer can be given on the basis of the few figures as discussed here before this committee.

Mr. FISHER: I quite agree with you in that respect. I should like to put this question to you. Parliament is the agency to which the C.B.C. must report but whenever we ask questions in relation to whether the C.B.C. is doing a good job we are blanketed by the C.B.C. with answers in respect of programming quality. How can we know whether C.B.C. is doing a good job in the commercial area if we cannot receive more detailed information in order that we may understand exactly the policy followed by C.B.C. in this respect?

Mr. OUIMET: Are you asking me that question?

Mr. FISHER: Yes.

Mr. OUIMET: You are able to view our programs and you have that advantage. You can see everything we do. You view the programs and can judge whether or not more of these programs can be sold. They are available for sale. I think you can make that judgment without much difficulty. C.B.C. is on the air every day with programs in both languages.

Mr. HARKNESS: Perhaps I should point out that we must make a complete distinction between quality of programming on the one hand, about which very few people complain, and the business and sales organization on the other hand. Most of our questions have been directed toward the business and sales organization rather than to the quality of programming. One of the difficulties we have encountered in asking officials of the C.B.C. this type of question is created by the fact that a great deal of information about program quality is thrown in to obscure the issue.

Mr. OUIMET: I would not agree with that statement, Mr. Harkness.

Mr. FISHER: That statement expresses exactly my point of view. I do not wish to get into this question in respect of program quality.

The CHAIRMAN: We are not in a position to discuss program quality.

Mr. Grégoire, do you have a further supplementary question?

Mr. FISHER: I have not completed my questions, Mr. Chairman.

The CHAIRMAN: I thought you had finished your questions in respect of programming.

Mr. ROCK: Is there not a committee now carrying out some investigations in this regard?

The CHAIRMAN: Is your question a supplementary question, Mr. Rock?

Mr. ROCK: My question is supplementary in a sense. Is there a commission or committee investigating certain aspects of the C.B.C. organization at the present time?

The CHAIRMAN: The Fowler commission is carrying out some inquiries, that is correct.

Mr. ROCK: Is it not a fact that questions of the type asked by Mr. Fisher are being discussed before the Fowler commission and if so, will the report of that commission be submitted to this or another body of parliament for consideration? If the answer to these questions is yes, why should we continue asking questions along this line?

The CHAIRMAN: I shall answer your question to the best of my ability.

Mr. ROCK: I am not suggesting that Mr. Fisher's questions are out of order.

The CHAIRMAN: Mr. Rock, perhaps you will allow me to answer your question to the best of my ability. The Fowler commission has been set up by the government and not by the House of Commons. This committee has specific terms of reference which have been tabled in the House of Commons and, subsequent to its deliberations, it will file a report to the government. If the Fowler

committee had been set up by the House of Commons it would, I think, undoubtedly be correct that this public accounts committee might well be debarred from making an investigation into matters which the House of Commons had already referred to other people. But this is the government: it is not the House of Commons.

We have definite terms of reference which were read at the opening of the sessions of this committee this morning. We are trying to keep within the four corners of these terms of reference. From time to time we do depart from them because it is a little difficult not to do so, and probably if I might make my observation on the point of order which was raised it might be of some assistance to members in the future.

The Canadian Broadcasting Corporation has taken a certain interpretation of its mandate as expressed, I believe, in section 29 of the Broadcasting Act. I do not think it is competent for this committee to question in any way the Canadian Broadcasting Corporation's interpretation of what is its mandate. However, in its implementation of that mandate, as is reflected in the financial reports and balance sheets, it is not only our right, I think, but our duty when the Auditor General has referred these matters to us to make such an investigation so that, when we as a fact finding body make a report, we might well say that we have discovered, say, \$26 million of programs available for advertising but which are not sold. These are matters from which inferences may be drawn.

I recognize that it is difficult to draw a clear line in discussing these matters, and at times both Mr. Fisher and Mr. Ouimet may have gone a little over the line in part of the general give and take. I hope, however, we will keep within what in the view of the Chair is the proper reference.

Have you finished, Mr. Fisher?

Mr. FISHER: There is one more area about which I want to ask Mr. Ouimet some questions, and that is in connection with commercial policy.

Mr. Ouimet, do you remember when C.F.T.O. first purchased the big four football games?

Mr. OUMET: Yes, I do.

Mr. FISHER: Do you remember the statement you issued at that time which included the opinion that C.F.T.O. could not recoup its investment in that particular time?

Mr. OUMET: No, I do not remember this particularly, but I do not know whether that is important.

Mr. FISHER: I just reread it this morning.

Mr. OUMET: By the way, I do not think it was C.F.T.O., was it? I think it was Mr. Bassett who purchased it through some company—I forget the name now. I do not think it was C.F.T.O.

Mr. FISHER: At that time you expressed a criticism—or that is what I took it to be when reading it—of purchases in a commercial area that could not bring in a profitable return. Have you any information or any kind of formula that would indicate how you operate in this whole question of a commercial return that is related to the production cost as something you put in?

Mr. OUMET: We are talking about sports here, and I would say generally that when we buy the rights for sports we try not to pay more than we expect to get from the sponsors; but in some cases in order to give a public service, even if it does cost more than that, we have to face that alternative.

Mr. FISHER: Is this policy completely inflexible or are there just some guidelines? Is there a policy to the effect that you do not get over a certain percentage of loss on a program?

Mr. OUMET: No. We discussed this in the 1959 and the 1961 committees and we have discussed it here this afternoon: there are a number of programs

that we produce in any event, and we try to get as much as we can for them if we can get a sponsor. There may be a \$50,000 program that will be sponsored by a company who will pay perhaps \$20,000 for it, and if we can get \$20,000 we feel that this is better than getting nothing at all because it is \$20,000 less that the public has to pay directly. Furthermore, we have the program that we would have to make anyway. So there is some flexibility there.

Mr. GRAFFTEY: Does it very often turn out, Mr. Ouimet, that a program might have cost, let us say, \$50,000 to produce and that a sponsor may offer \$8,000, \$9,000, \$10,000 or \$15,000 and he may be the only person offering anything? Would you consider it such a low offer that you would not take it?

Mr. OUIMET: No, we would not consider very low offers.

The CHAIRMAN: Mr. Grafftey, you are on the list to ask questions after Mr. Fisher.

Mr. FISHER: He is following the point. Is there any norm that you apply?

Mr. OUIMET: We are talking now about really expensive programs which are away above what the sponsor can pay, but there are definite norms for the average type of program. For example, for a \$5,000 or \$10,000 or \$20,000 program there are norms, and we gave those norms to similar committees before.

Mr. FISHER: Are these norms related in any way to your program policy?

Mr. OUIMET: No, I do not think they are related to our program policy.

Mr. FISHER: You have slackened off somewhat on drama lately and you have slackened off somewhat on variety shows. Will you have a different relationship?

Mr. OUIMET: That has nothing to do with what we charge.

Mr. FISHER: Nothing at all?

Mr. OUIMET: No.

Mr. FISHER: Since there are a limited number of sponsors who will pick up a national program in drama or variety, do you find yourself left with some kind of formula of the mix in order to determine what you can get in advertising revenue?

Mr. OUIMET: Our formula of the mix is determined on the basis of what we consider to be a good balanced schedule. This is how we determine our schedule.

Mr. FISHER: It is the balance mix that really puts the limit upon it?

Mr. OUIMET: The balance mix limits the amount of commercial we can get. We feel if we let the commercial considerations prevail, then obviously we could change the mix around, we could sell everything but I do not think we would be distinguishable from a commercial organization.

(Interpretation)

Mr. GRÉGOIRE: To continue along the same line of questioning as Mr. Fisher was putting a few minutes ago, can you tell us in how many provinces the English network extends?

Mr. OUIMET: The ten provinces of Canada.

Mr. GRÉGOIRE: And the French network?

Mr. OUIMET: In so far as radio is concerned, in eight of the ten provinces and five for television. I shall ask Mr. Fraser to think over the answer to that, but I believe it is five. Yes, five is correct.

Mr. GRÉGOIRE: Consequently, the extension of the Canadian Broadcasting Corporation is done more on the English than on the French network?

Mr. OUIMET: From a geographical point of view, yes.

Mr. GRÉGOIRE: From the point of view of the number of stations?

Mr. OUMET: From the point of view of the number of stations of course, radio and television.

Mr. GRÉGOIRE: As a last question in this regard may I ask whether in all regions where there is a majority of English speaking persons, where there might be advertising programs bringing in a considerable amount of money, they are all open at the present time?

Mr. OUMET: I would say yes.

Mr. GRÉGOIRE: Therefore, in these circumstances the extension of the English network preferably would not bring in more commercial income, or at least not to an appreciable extent?

Mr. OUMET: That is true.

Mr. GRÉGOIRE: Mr. Oumet, in another field, I see on page 4, for artists, speakers, musicians, performing rights, \$17 million. Does this include all artists on television or radio?

Mr. OUMET: All artists, interpreters, speakers, commentators.

Mr. GRÉGOIRE: Free lance or salary?

Mr. OUMET: No, not salaried. Salaries are to be found in the fifth item—salaries and wages.

Mr. GRÉGOIRE: But I mean the salaries of those who are on radio as, for instance, regular announcers.

Mr. OUMET: No, this is not to be found among artists and speakers, musicians' fees and so on. This is only people who are—

Mr. GRÉGOIRE: Paid for broadcasts?

Mr. OUMET: Paid broadcasters, yes.

Mr. GRÉGOIRE: Would the great majority of others come under salaries?

Mr. OUMET: Yes.

Mr. GRÉGOIRE: In the first item, approximately how much would you estimate would be the wage bill for the personnel or the staff in total, without distinction, on both networks on television or on radio?

Mr. OUMET: I would say that the expenditures for salaries and wages would be approximately a one third to two thirds ratio. Perhaps I am mistaken.

Mr. GRÉGOIRE: On \$44 million?

Mr. OUMET: Yes.

Mr. GRÉGOIRE: Which means there would be another \$15 million for the artists.

Mr. OUMET: No, no; I misunderstood you. I thought you meant both of the networks, English and French.

Mr. GRÉGOIRE: No. I am speaking of a comparison of charges in respect of regular employees who appear on television and radio.

Mr. OUMET: Do you mean announcers in particular and others? A few of our commentators, but I could not tell you because I do not have that information here.

Mr. GRÉGOIRE: You have no approximate idea?

Mr. OUMET: I believe it would be a relatively low percentage.

Mr. GRÉGOIRE: Could you give us an approximate figure at the next meeting?

Mr. OUMET: Yes.

Mr. GRÉGOIRE: Would this mean there would be technicians in this list, cameramen for instance?

Mr. OUMET: Yes.

Mr. GRÉGOIRE: And, technical producers and so on?

Mr. OUMET: You would like to have the details and the allocation of our expenditures for wages and salaries among the various groups.

Mr. GRÉGOIRE: Not necessarily in detail but, for instance, among the technicians and so on. I would like to have this information for the whole of the technician group and all those who deal with the technicians. This would include the cameramen, the technicians, the technical producers and those who form a part of the program itself when the program is being broadcast but who are not actually shown on television.

Mr. OUMET: We can give you this information next Tuesday.

Mr. GRÉGOIRE: And, decor.

Mr. OUMET: Now, are you speaking of wages and salaries of those who deal with scenery, or are you speaking of the cost?

Mr. GRÉGOIRE: No, I am speaking of the percentage of administrative costs, wages in general.

Mr. OUMET: Yes, I believe we can give you this information.

Mr. GRÉGOIRE: Which means that this would be the balance of the \$44,138,000. What would be the ratio between salaries in general of personnel strictly on a program or on screen and those who are on the administrative side of the C.B.C.?

Mr. OUMET: Yes, we can give you this information. At least, I hope so.

Mr. GRÉGOIRE: In general. I do not necessarily want to go into all the details of each individual category such as cameramen, boom men or anything else; just in general.

Now, Mr. Oumet, under the item of budget could we also know how much during the year you could spend, for instance, on sports. What would be the budget of the C.B.C. in respect of sports, theatre, glamour and so on? Do you have special budgets for each category of programming such as sports, drama, public affairs, classical and popular music, and so on?

Mr. OUMET: We know exactly how much we spend for each program. We would have to add all these figures together to give you this information because we normally do not have these details prepared in advance. We shall have to do this especially and that is why I can only give this to you next Tuesday.

Mr. GRÉGOIRE: I do not want to put you to the trouble of going through all the programs of the year but, for instance, could we know for a week how much you spend for each large item such as music, sports, theatre, drama, public affairs and, if possible, classical and popular music.

Mr. OUMET: Mr. Grégoire, we shall try to give you this information.

Mr. GRÉGOIRE: I think the committee would like to know how much is allotted by the C.B.C. for each one of these.

You will admit, as I do, that I am not so exacting that I will go down into the sharps and flats.

(Text)

The CHAIRMAN: Gentlemen, we will leave it at this. The officials have indicated they will do their best to have this information for Tuesday, at which time it will be printed as part of the evidence, if it is the wish of this committee. If this information is available for Tuesday, fine; if not, we will get it as soon as we can and it will form part of the proceedings.

(Interpretation)

Mr. GRÉGOIRE: For those who do not know the difference between classical and popular music, Mr. Chairman, I think they should acquire this knowledge because music is one of the greatest forms of culture that there is.

Mr. TARDIF: Perhaps Mr. Grégoire would find it difficult to tune his violin.

(Text)

The CHAIRMAN: Gentlemen, may we get off culture and into public answers, please.

Mr. Graftey, you will follow Mr. Grégoire.

(Interpretation)

Mr. GRÉGOIRE: A short time ago I heard a few questions put, to which answers were given, and I did not understand some of the meanings of the questions and the answers. I would like an explanation of this. You said you would evaluate the cost of a program at X dollars. Does the sponsor always pay the full cost of production of the program?

Mr. OUMET: No.

Mr. GRÉGOIRE: Does he therefore pay the equivalent of the fees or the expenses beyond, for instance, the regular staff?

Mr. OUMET: Approximately, yes.

Mr. GRÉGOIRE: You said "approximately"; that is, the sponsor.

Mr. OUMET: Not in all cases. If it is a bargain program he might pay a good part of the fees but all the indirect costs. When it is a very costly program in a general way we might try at least to have the fees and direct costs involved paid.

Mr. GRÉGOIRE: Incidentally, in respect of the cost of programming may I say that in my opinion the C.B.C. exists not to make money. But, if it costs money and if they are good programs I agree; and if we need more money to have better programming I am more so in favour of it. I will divide the programming. Will the sponsor pay a lower cost in the popular field, to start with this, than in the field of culture—and I am referring here to the cost of a baseball game as opposed to drama.

Mr. OUMET: In a general way our sports programs are completely paid for.

Mr. GRÉGOIRE: In a general way?

Mr. OUMET: If we are speaking, for instance, of hockey, football and all those sports, we try to charge sufficiently so that all costs will be met.

Mr. GRÉGOIRE: This means the cost of production?

Mr. OUMET: The complete cost of production.

Mr. GRÉGOIRE: Does this also happen in the case of sports where, for instance, there would be courses on judo, and softball and baseball games?

Mr. OUMET: I would have to inquire in this connection because I am not certain.

Mr. GRÉGOIRE: So far as drama is concerned, does the same thing apply?

Mr. OUMET: No. In the field of drama costs are higher and, in a general way, the sponsors cannot pay the complete cost. If we requested this we could not sell the programs.

Mr. GRÉGOIRE: What about soap operas?

Mr. OUMET: No.

Mr. GRÉGOIRE: As the C.B.C. pays for part of the cost of soap operas on television do you not believe that because you are paying for it with the people's money you should see to it that the programs are on a higher level or plane?

Mr. OUMET: No, we give the same attention to all our programs, whether they are sponsored or not. We do not differentiate in the choice of programs

regardless of whether or not they are sponsored. They are C.B.C. programs. The only difference is that after having decided to produce a program it might happen that it might not be sold or that it might be sold. There is no difference in quality.

Mr. FISHER: Or it might not be good enough to be shown.

Mr. OUMET: In a general way however, in the field of drama, opera, symphonic concerts, and so on, we find ourselves in a field in which there are more programs which are not sponsored, or which are sponsored in such a way that only part of the cost is paid. It happens more often on these more considerable programs than on sport programs or the very simple programs such as interviews and so on.

Mr. GRÉGOIRE: To go to a more specific field now, in view of the expenses which can occur in this field, such as classical music, the concert hour or symphonies, is this not one of the fields in which programs are not sold?

Mr. OUMET: It is very difficult to sell them but there is no objection to selling them.

Mr. GRÉGOIRE: Is it because of the cost of the program?

Mr. OUMET: Yes.

Mr. GRÉGOIRE: This does not mean that the program is not popular?

Mr. OUMET: No. Perhaps it does mean that it is not as popular as other types of programs, such as soap operas. I do not want to name the programs. I am also speaking of such programs as sports, for instance. I would like to say yes, but unfortunately our large programs, such as classical music and opera, are not as popular as hockey on a Saturday evening, but it is all the same surprising to see the number of listeners that these programs have. In one case, for instance, we might speak of two million, in another case of 800,000 or 900,000, which is still a considerable number.

Mr. GRÉGOIRE: Now, Mr. Ouimet, if these programs are very popular would it not depend somewhat on the quality of the artists, that is not on the quality of the decor, or the scenery, but perhaps on those who, being responsible for the production of the programs, do not have the required taste to present to music lovers, who are very numerous, the required quality? Is a lack of money a reason for this?

Mr. OUMET: Frankly, I think that with all the money in the world we would not succeed in having the same audience for a great opera, even with the best artists and the best interpreters and the best orchestra available, as we would have, once again, for hockey on a Saturday evening or for something a little lighter. These are the facts of life.

Mr. GRÉGOIRE: Perhaps we could prove the contrary. Three or four years ago you had a program which had a very high rating. The next day you had praise from everywhere. On the other hand, if you ask the people to express enthusiasm when week after week you have the Spanish hour or Carlo Menotti, a very good artist, even if you had 40 expert jewellers at the back of the clock do you think you would be making your program popular?

Mr. OUMET: You are right. There are certain programs which are much more difficult to produce than others. Let us take for instance the case of "Les Trois Valses". This was a very popular program. It was one of the most popular ones. However, unfortunately we cannot obtain the rights for a great many of these programs. Moreover, there are not so many of them as all that.

Mr. GRÉGOIRE: After the presentation of such programs as *Madam Butterfly*, *Tosca*, *Faust*, *La Bohème* which have been presented on both networks, did you not have an excessively favourable reaction?

Mr. OUMET: For this type yes, but not the same as for *Les Trois Valses*. There were three such programs. I do not remember the name of the third.

Mr. GRÉGOIRE: You had one of *Lionel Daunais* which, according to what I saw was received with a great deal of enthusiasm. If you had had programs like those instead of the ones I mentioned a little while ago would it not be easier for you to make them profitable and at the same time to interest the public?

Mr. OUMET: I do not believe that we could have sold the *Lionel Daunais* programs even if they were excellent. Once again we must not limit ourselves to one particular type of program. We have to have serious classical music for those who like serious music and lighter programs for those who like lighter programs such as *Les Trois Valses* or the *Spanish hour*. That is why we have varied programs.

Mr. GRÉGOIRE: I do not believe that your programming should be solely limited to this, but in your opinion do you think that the C.B.C. presents sufficient programs of good quality from the musical point of view?

(Text)

The CHAIRMAN: We are entering into forbidden territory. We are entitled to consider the various aspects of the C.B.C. as regard financing and administration. To a limited extent we might also discuss in some measure the question of the programs which we have already discussed this afternoon with relation to the programs which are produced and cannot be sold. However, as I pointed out this morning, our terms of reference do not enable us to be a committee on broadcasting. I let these questions be asked, but if you go a little further the whole subject matter will be completely thrown open and we will be departing outside of our terms of reference. I would hope that we would stay within those terms of reference.

(Interpretation)

Mr. GRÉGOIRE: Mr. Chairman, may I speak on a point of order? I could relate my question to the subject in this way. In the musical field the C.B.C. is now spending money which is allotted to it in its budget in a practically useless way. We do not often have the occasion of speaking with Mr. Oumet as we are doing at the present time and we do not have much occasion to give him our opinion and our constructive criticism. I do not wish to destroy the C.B.C. and their programming. I think they are doing very well, but sometimes they have not done so well in this field. That is why at the present time I wish to take the opportunity of giving him my opinion in view of the fact that C.B.C. programs are paid out of public money.

Mr. Chairman, a field which interests me tremendously is the musical field. I think on television the C.B.C. does not give us the quality required.

(Text)

The CHAIRMAN: It is because of your obvious interest in this that I have permitted you to go on. If you open this up, it will become competent for other members of the committee to enter this field of questioning as there are others who equally are interested in the type of programs which the C.B.C. in its interpretation of its mandate sees fit to put on. If we were to continue with this line of questioning, I think we would be departing from what is our real object is being here. I appreciate your interest, and I am sure the C.B.C. does.

Mr. GRÉGOIRE: Will you allow me two questions?

The CHAIRMAN: We will try them out for size.

(Interpretation)

Mr. GRÉGOIRE: Mr. Ouimet, are you satisfied with the results obtained from a musical point of view?

Mr. OUMET: I think I probably should say we never are satisfied with the results obtained. In a general way, I think the answer is yes. In respect of the serious programs such as the concert hours, you would be surprised at the number of listeners we have. I do not have the figures in my mind, but I believe there are a few hundred thousand listeners who listen to serious music. I think this is important.

Mr. GRÉGOIRE: Where there are no other television stations it is rather difficult for them to listen to anything else.

Mr. OUMET: Even where there are other television stations. It is the same thing in the English programming. For example, with the "Festival" series it is surprising the number of listeners there are.

Mr. GRÉGOIRE: Unfortunately you seem to be satisfied. Personally, I am not. Would you accept a suggestion that you might have not an employee and not an official but an artist who knows good music and have him suggest the choice of pieces along with the two persons who presently are in charge of this department?

Mr. OUMET: I thought we had people who have imagination in our musical service.

Mr. GRÉGOIRE: Once again I will tell you you are not fussy if you are satisfied with your classical music series, not because of the artists—they are very good—but because of your way of producing these programs and the choice of pieces.

Mr. OUMET: Do you think the choice is too serious?

Mr. GRÉGOIRE: It is not balanced. You have classical music and you see people going up on ladders with modern clothing. It does not seem to go together.

(Text)

The CHAIRMAN: You have gone a little beyond your two questions.

Mr. GRAFFTEY: Very briefly, may I ask Mr. Ouimet for a statement with regard to how he feels the latest Canadian content rule would affect advertising revenues in general, and the commercial policy of the corporation?

Mr. OUMET: You mean the latest content rule of the B.B.G.?

Mr. GRAFFTEY: Yes; the Canadian content rule. I know this is a difficult question to answer.

Mr. OUMET: Frankly, I do not think it is very difficult, because the rule of the B.B.G. is 55 per cent Canadian content. In our network we have made it our own internal rule to give 65 per cent.

Mr. FISHER: In prime time?

Mr. OUMET: No; unfortunately not in prime time. Nobody does this, as a matter of fact. In prime time it is more like 50 per cent. However, Mr. Fisher, I am glad you mentioned this. In order to increase the Canadian content in prime time to over 50 per cent, we would have to decrease our commercial revenue.

Mr. FISHER: Exactly.

The CHAIRMAN: Mr. Grafftey, Mr. Cameron and Mr. Rock have been very patient. Carry on, Mr. Grafftey.

Mr. GRAFFTEY: I think Mr. Fisher is suggesting, perhaps, that to a certain degree programming is affected by commercial considerations.

Mr. OUIMET: It is, and this is the danger.

Mr. FISHER: Danger?

Mr. GRAFFTEY: Is this not also part of the mandate, as you interpret it?

Mr. OUIMET: Part of the mandate that our programming be affected by commercial revenue?

Mr. GRAFFTEY: No.

Mr. OUIMET: Not as we interpret it.

Mr. FISHER: Is it possible to have excellent programming without having commercial programming?

Mr. OUIMET: You are correct; we could not have a schedule without any commercial programs whatsoever, because then we would deprive ourselves of certain well known sports classics that we cannot obtain in any other way, and the programming no longer would be balanced. Also, there are certain United States programs that the Canadian public wants to see which it would be difficult to obtain on a non-sponsored basis.

Mr. GRAFFTEY: Could you briefly tell the committee in what different manner the Canadian content rule affects Radio Canada and the C.B.C.; is there any difference?

Mr. OUIMET: You mean the French network and the English network of the C.B.C.?

Mr. GRAFFTEY: Yes.

Mr. OUIMET: No. Generally, the rules are the same. Although when we started on the French network we had a much higher Canadian content than on the English network, as our budgets became tighter and tighter we have had to reduce the Canadian content on the French network to a point where it is at about the same level now as on the English network. We are trying to import some programs from Europe, and in certain cases they are United States programs with the sound dubbed in. Within the budget of the French network we simply cannot produce the same number of hours we have on the English network for the reason that on the French network we really do not have any source of, for instance, programs from the United States as we do on the English network.

Mr. GRAFFTEY: Very briefly I would like to clarify a question I put earlier in the day. Speaking not of the C.B.C. in relation to private television, but rather about television in general in Canada in relation to other advertising media, such as newspapers, magazines, and other types, relatively speaking has television had its share of the advertising dollar in the last three or four years in relation to these other media, or is its share increasing?

Mr. OUIMET: Yes; it has certainly kept its share and I believe it has increased it slightly.

Mr. GRAFFTEY: In the last three or four years?

Mr. OUIMET: Yes, but not to a marked extent. What is to be noted is that it has a lower share of the total advertising dollar than, for example, television has in the United States.

Mr. GRAFFTEY: In terms of commercial and advertising policy—if you want to put it as tightly as that—is there a liaison between the C.B.C. and other, let us say, state owned broadcasting corporations; do you have much liaison with other state owned broadcasting corporations so that you can discuss advertising?

Mr. OUIMET: There are very few nationally owned broadcasting organizations engaged in commercial broadcasting. For example, the B.B.C. in England

carries no commercials. R.T.F. in France has no commercial content and R.A.I. in Italy has some commercial content, but only to a limited extent. Generally speaking the national organizations in the world do not have commercial activity, so therefore there is no point in having liaison with them in any such activity.

Mr. GRAFFTEY: In other words, you have a difficult time in finding confreres to talk shop to in this type of performance.

Mr. OUMET: That is true. We are a rather strange phenomenon because of our existence on the North American continent where we try probably in the most difficult way to do things, that is, by a mixture of both the private and the public resources in the one organization.

The CHAIRMAN: Mr. Cameron, and then Mr. Rock.

Mr. CAMERON (*High Park*): You will agree that this has been very interesting, and I assume you will also agree that you are trying to conduct a public service and at the same time make it profitable commercially. But if you emphasize one aspect as against the other, you are damned.

I was thinking about Mr. Winch's point concerning programs which are available for sale, and following Mr. Grégoire's suggestion about the quite classical musical ones which you would not want to sell to, let us say, a beer sponsor or something like that, because your customers would not appreciate it.

Mr. FISHER: What about the O'Keefe Centre?

Mr. CAMERON (*High Park*): You do not want to cheapen them by selling them at less than a prestige cost. I was interested in Mr. Fisher's suggestion about the extension of the percentage as between French and English stations. It seems to me that the principle you are trying to follow is to give the same service clear across Canada, regardless of where it is. It may be that the French market does not produce as much revenue, because there are not as many sponsors in that particular market to pay for it. But the French listener should not be prejudiced by that fact. Have I made a clear summation of the matter?

Mr. OUMET: I believe it is, sir.

Mr. CAMERON (*High Park*): I hear a little laughter. Why is it not fair?

Mr. HARKNESS: I wondered what the question was.

Mr. ROCK: On page 11 you have investments in government bonds.

The CHAIRMAN: We have not got to page 11 yet.

Mr. ROCK: I do not think you have got anywhere. You have been scattering all over the place and I have the same right as anyone else.

The CHAIRMAN: If you can relate what is on page 11 to what is on page 9, then by all means carry on. We stopped at page 9 which included a very comprehensive body of material. If you can relate page 11 to page 9, then by all means please do so.

Mr. ROCK: You have securities there of some kind.

An hon. MEMBER: You are out of order.

Mr. ROCK: I do not see why I should be.

The CHAIRMAN: Please carry on.

Mr. ROCK: In this case there could be added revenue if there was a different government policy.

The CHAIRMAN: Your question is tied up to that page?

Mr. ROCK: Yes.

The CHAIRMAN: All right, carry on.

Mr. ROCK: I refer to the bond investments you have of \$1,445,000 in value, and you mention that their cost was \$1,500,000, 2½ per cent government of Canada bonds. May I know what date these were purchased?

Mr. DAVIES: They were purchased around 1955. I am not sure of the date however.

Mr. ROCK: Were they at that time purchased at par or below par?

Mr. HENDERSON: I think the fact is—

Mr. DAVIES: They were purchased below par.

Mr. HENDERSON: Because the cost is shown at \$1,445,000, with parity of \$1,500,000, this shows that they have been purchased below par.

Mr. ROCK: Now, the value at this point, the market value as of March 31, 1963, is \$1,380,000 which is away below par. Are these bonds perpetual bonds?

Mr. DAVIES: No, they are 1967's and 1968's, and they will become due at maturity for their full value. They are not perpetual bonds.

Mr. ROCK: No. Well they are not the same bonds that I am stuck with then.

Mr. GRÉGOIRE: Where did you get the money to buy those bonds?

The CHAIRMAN: Please let Mr. Rock finish.

Mr. ROCK: I would like to know from the Auditor General if the bonds issued today by the government are being sold below par, or if they are sold at par at all times.

Mr. HENDERSON: Some of the offerings go out slightly under par. It all depends on the market. It is the prevailing interest rate which generally determines the offering price of any bonds issued. The interest rates are what usually govern the prices when they are offered.

Mr. ROCK: At the time of the conversion, were they converted to bonds which had a par value at all times?

Mr. HENDERSON: These particular bonds were not part of the conversion. The corporation is obviously holding these bonds until maturity so that it can get 100 cents on the dollar.

Mr. ROCK: I do not blame them, after holding them for so long. Now, in your picture of revenues for commercial broadcasting and advertising, and also the cost to do this advertising with your television, and your cost of production in general, does the cost of all your advertising, the cost of getting the customers to advertise with the whole staff there—at least equal, or is it less than the amount which you receive?

Mr. OUMET: You are asking whether we are losing money on our commercial operations.

Mr. ROCK: I would like to know whether it pays to run your commercial operations or not; in other words, does your commercial operation equal the amount of revenue for your commercial broadcasting?

Mr. FISHER: On a point of redundancy, Mr. Chairman, I think you should rule on this.

The CHAIRMAN: You mean on the question of whether this is repetitive of a matter which was brought up earlier?

Mr. FISHER: I think it has been gone over three times.

The CHAIRMAN: Yes, it has been. This was discussed. But probably I should let Mr. Ouimet or Mr. Davies answer this, and limit it to their answers. It was discussed this afternoon and it will be found in the record. But I see no reason why we should not answer this question, and I hope it will stop there.

Mr. OUMET: Let me say immediately that we do not lose money by engaging in commercial operations.

Mr. GRÉGOIRE: I do not know about the C.B.C.

Mr. OUMET: On the other hand, it is very difficult to relate the actual cost in toto to the total revenue. One way of doing it is to look at exhibit 2

where you see we have \$30,846,000 gross there, and the payments that we had to make were \$28,801,000. But we must keep in mind that there is more to it than that. I find that in many cases such commercial operations bring us programs for which we would have to pay if we did not engage in such commercial operations. That is where it is difficult to get an exact balance.

Mr. ROCK: I have one more quickie. Have you as a corporation any intention in the future of going into the movie type of broadcasting rather than the live production of Canadian historic stories which could be sold to other countries, after you had put them through your television network?

The CHAIRMAN: I must rule that this question does not come within 1962 and 1963.

Mr. ROCK: Very well.

The CHAIRMAN: However, if as a matter of general interest Mr. Ouimet wishes to answer it, I would not object.

Mr. ROCK: I am not thinking about Davey Crockett or the Pierre Radisson sort of thing, but rather of the one hour type of movie production that we get from many other countries.

Mr. OUMET: Generally speaking, we will try to encourage the development of a Canadian film industry. Whether we will go more to film than to live broadcasting is a very difficult thing to say. At the moment there is definitely a greater amount of film used than there was five years ago. The main phenomenon now is that there is a great deal of videotape used. We still call it live but actually the program has been recorded on videotape. It has been produced in the studio by live television techniques. This gives us great advantages in a number of ways.

Mr. ROCK: There is not much difference in cost between utilizing that technique and making a real film; is that right?

Mr. OUMET: There is still a great deal of cost difference between making a film where there is a great amount of shooting done for the number of minutes filmed compared to the use of videotaping where, generally speaking, we shoot exactly 60 minutes for a 60 minute program or 30 minutes for a 30 minute program.

The CHAIRMAN: Mr. Crouse, did you indicate some time ago you had a question to ask?

Mr. CROUSE: Yes.

The CHAIRMAN: I have Mr. Fisher's name next on my list, although I understand Mr. Grégoire wishes to rise on a point of order. Am I correct in that regard, Mr. Grégoire?

Mr. GRÉGOIRE: I did not wish to refer to my point of order at this time in view of the fact we intend to adjourn at ten o'clock, but Mr. Speaker has promised that all committees will be organized to provide a French and English reporting system so that when we are speaking French it will not be interpreted into English and taken down by English reporters. I think it would be advantageous to all committee proceedings to have these facilities made available. I think this is only a fair request. I did not intend to burden this committee at this time with this suggestion but I think my request is fair and should be considered in respect of our next meeting.

The CHAIRMAN: Your request is eminently fair, Mr. Grégoire. On behalf of this committee I made reference to this situation at the procedures committee. Although that meeting was in camera I think I am safe in stating that this situation was discussed and brought to the attention of Mr. Speaker. The indication was given that this situation was under discussion and being

attended to with the hope that by next week the facilities to which you have referred will be available in this room.

Mr. GRÉGOIRE: Will those facilities be available to this committee at its next sitting?

The CHAIRMAN: That certainly is my understanding of the intention, but sometimes there is a gap between intention and fulfilment.

Mr. GRÉGOIRE: You may recall, Mr. Chairman, that the privileges and elections committee had facilities of this type installed within 12 hours. These facilities are now installed in room 308 of the west block, and it is my understanding that room was not used but available today. I have further questions to ask my friend, Mr. Ouimet, in French, and I feel that if my questions and his answers are taken down through the use of a French reporting system it will be more satisfactory than if performed through the interpretation system.

The CHAIRMAN: Mr. Grégoire, room 308 had been reserved by another committee which subsequently cancelled its arrangements.

Mr. GRÉGOIRE: I am sure the same system could be installed in this room.

The CHAIRMAN: We hope that will be done very quickly.

We have a few minutes available before our adjournment. Do you have a question to ask before we adjourn, Mr. Fisher?

Mr. FISHER: Yes.

Mr. Ouimet, when you are planning a program schedule for the fall and winter and you are buying films from the United States and Great Britain in the late winter and early spring, do you ever purchase more films than you need?

Mr. OUIMET: As far as I know we have not done so. However, I hope I am not proven wrong after further investigation.

Mr. FISHER: You would never purchase a show to make sure it did not get into the hands of a private network?

Mr. OUIMET: No, definitely not. That policy would prove to be a very costly way of doing business. We would have to pay for those shows which cost \$3,000 to \$4,000 per week for a period of from 26 to 39 weeks. Such a practice would involve an extensive investment.

Mr. FISHER: Would you be prepared to make some sort of comment in respect of your schedule placements if at our next meeting I presented the names of one or two shows in relation to which the suggestion has been made that you purchase them this year and last year in order to keep them out of the hands of the private network?

The CHAIRMAN: Would the transactions to which you have referred occur within the two years we are considering, Mr. Fisher?

Mr. FISHER: I am sure one of the purchases would fall within that period of time.

Mr. RYAN: I should like to ask a supplementary question, Mr. Chairman.

Mr. Ouimet, do you always have a market for the sale of a film before you buy the film, or buy the rights to the film?

Mr. OUIMET: That is not always the case because sometimes we must take risks.

Mr. FISHER: What does happen to a film you buy and cannot find a spot for in your schedule?

Mr. OUIMET: I would say that would depend on the length of time covered by the rights purchased. If the rights purchased covered a fairly long

period of time we would endeavour to sell the film during the following season. This is a hypothetical question. I am not sure that such a situation has arisen.

Mr. FISHER: I am not sure that is a hypothetical question. I am sure I saw reference in the Auditor General's long report, to a program purchased but not shown.

Mr. OUMET: Mr. Chairman, may I ask Mr. Fisher whether he is referring to a feature or syndicated film? We must be careful that we are referring to the same thing.

Mr. FISHER: At page 15 of the last report of the Auditor General there is reference to script rights being written off. There is also reference to the fact that single episodes of film contracts expired by the end of the year and not telecast because of unsuitability, and I assume that the film rights in this respect were written off. I assume this fact would suggest a bad or unwise purchase; is that right?

Mr. OUMET: That is not necessarily correct. In certain cases such a circumstance would indicate that we had bought a show in a batch of feature films made available to us in order to obtain good films. I might say most of the films in such a package deal are good, but sometimes we must take a few which are not of suitable quality. When we make such a deal we figure those in our costs and do not show the bad films. Many other cases occur in respect of which the film is not shown because of pre-emptions. During the showing of a syndicated series of perhaps 29 or 36 episodes something of importance may happen preventing us from showing episode 15, for example. The situation which develops following the cancellation of that episode may make it impossible to show it at a later date. A great number of special occasions arise which prevent us from showing a scheduled episode, such as the assassination of the President of the United States. Many other reasons cause the displacement of one episode of such a series.

Mr. FISHER: I will make an effort to present one or two examples at our next meeting.

I should also like to ask questions in respect of a further subject, but before doing so I should perhaps inquire whether it was discussed this afternoon. I am referring to the salaries of the president and other officials of the C.B.C.

The CHAIRMAN: No, we did not go into that in its entirety. It was mentioned, I think, by the Auditor General in the discussion at large, but I think there is a point further on where it will be dealt with in detail. Possibly at this point as it is approximately ten o'clock, if it meets the views of the committee, we might adjourn and then, next Tuesday, we may start at page 7 of the balance sheet and reach all these other items. This course will permit discussion of the different items the members wish to bring before the committee.

We are running out of long form reports. May I therefore express the hope that those of you who will attend the meeting on Tuesday will bring back those reports.

The meeting is adjourned until 9.30 a.m. on Tuesday.

APPENDIX I

CANADIAN BROADCASTING CORPORATION

CONTENTS

Report to the Board of Directors of Canadian Broadcasting Corporation dated December 6, 1962.

Report to the Minister of National Revenue dated June 4, 1962.

Financial Statements for the year ended March 31, 1962:

Balance Sheet	Exhibit I
Statement of Operations	Exhibit II
Statement of Proprietor's Equity Account	Exhibit III

AUDITOR GENERAL OF CANADA

OTTAWA, December 6, 1962.

The Board of Directors,
Canadian Broadcasting Corporation,
Ottawa.

We have examined the accounts and financial statements of the Canadian Broadcasting Corporation for the year ended March 31, 1962 pursuant to the provisions of section 34(2) of the Broadcasting Act under which the Auditor General of Canada is appointed auditor of the Corporation.

A report in the form required by section 87 of the Financial Administration Act was addressed to the Minister of National Revenue under date of June 4, 1962 and copies were made available for distribution to the Directors. The financial statements of the Corporation for the year ended March 31, 1962 were prepared in accordance with the provisions of section 85 of the Financial Administration Act.

The accounting functions of the Corporation are decentralized and during the year we examined the accounts and records at the Head Office in Ottawa, National Engineering Headquarters in Montreal and offices located in Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver. Our examination was made in accordance with generally accepted auditing standards, and included a general review of the accounting procedures and system of internal control, together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

For convenient reference we are attaching copies of our report to the Minister of National Revenue dated June 4, 1962, Balance Sheet as at March 31, 1962 and Statements of Operations and Proprietor's Equity Account for the year then ended.

A copy of this report is being sent to the Honourable G. E. Halpenny, P.C., who was designated, for the purposes of the Financial Administration Act, as the appropriate Minister with respect to the Canadian Broadcasting Corporation by Order in Council P.C. 1962-1160 dated August 22, 1962.

RESULTS OF OPERATIONS

Funds to a total of \$70,418,000 were provided under Vote 43, Appropriation Act No. 5, 1961 for the net operating requirements of radio and television services for the year ended March 31, 1962. With the net operating requirements amounting to \$70,252,273 (exclusive of depreciation charges totalling \$4,039,041

which are included as an expense for cost ascertainment purposes), the unexpended balance of \$165,727 was recorded as a liability of the Corporation at March 31, 1962 and refunded to the Receiver General early in the current year. The net operating requirement of \$70,252,273 for the year under review is compared with the requirement of the previous year in the following summary:

	Year ended March 31, 1962	1961	Increase (Decrease)
Expense:			
Cost of production and distribution.	\$ 100,643,515	\$94,714,235	\$ 5,929,280
Selling and general administration .	6,967,639	6,238,590	729,049
Total Expense	107,611,154	100,952,825	6,658,329
Advertising income, etc.	33,319,840	38,088,223	(4,768,383)
Net Expense	74,291,314	62,864,602	11,426,712
Less: Depreciation charged as expense for cost ascertainment purposes ..	4,039,041	3,576,126	462,915
Net Operating Requirements	70,252,273	59,288,476	10,963,797

An operating budget of \$70,418,000 for the year ended March 31, 1962 was by Order in Council P.C. 1961-494 dated March 30, 1961. The following table shows a comparison of the operating budget with the actual results of operations for the year:

	Budget	Actual	Actual Over (under) Budget
Artists', speakers', musicians' fees, copyrights, performing rights, manuscripts and plays	\$19,509,000	\$18,301,000	\$(1,208,000)
Film purchases and rentals	7,676,000	8,620,000	944,000
Network transmission, LPRT's oper- ating expense—radio and ex- tended television coverage	8,009,000	8,223,000	214,000
Building rental and maintenance ...	3,727,000	3,628,000	(99,000)
Salaries and wages	41,569,000	41,701,000	132,000
Unemployment insurance and pen- sion contributions	2,581,000	2,346,000	(235,000)
Other departmental expenses	14,318,000	13,164,000	(1,154,000)
	97,389,000	95,983,000	(1,406,000)
Less: Expenditures recovered from capital grants and other govern- ments	1,971,000	2,256,000	285,000
	95,418,000	93,727,000	(1,691,000)
Less: Estimated income (net of com- missions and payments to private stations)	25,000,000	23,475,000	(1,525,000)
Net operating requirements	70,418,000	70,252,000	(166,000)

As shown by the table on page 3, the net operating requirements of the Corporation increased by \$10,963,797 from \$59,288,476 for the year ended

March 31, 1961 to \$70,252,273 for the year ended March 31, 1962, an increase of 18.5% compared with the previous year's increase of \$6,988,198 or 13.4%.

Increasing expenses and declining revenues have both contributed to the enlarged operating requirement. Increased expenses contributed to the extent of \$6,195,414 to the increased operating requirement for the year ended March 31, 1962 over the requirement for the previous year, while decreased revenues accounted for \$4,768,383. Reduced television advertising revenue amounting to \$5,064,315, offset to a small degree by \$372,782 more radio advertising revenue, largely accounted for the reduction in income. The significant decrease in revenue from this source was attributed by the Corporation mainly to the establishment of second television stations in eight major areas previously served only by the Corporation.

Details of increases in the various expense classifications totalling \$6,658,329 follow:

	Year Ended March 31, 1962	1961	Increase (Decrease)
Artists', speakers', musicians' fees ...	\$ 18,301,000	\$ 18,084,000	\$ 217,000
Salaries and wages	41,701,000	37,308,000	4,393,000
Film purchases and rentals	8,620,000	8,000,000	620,000
Travelling and duty entertainment ...	2,020,000	1,710,000	310,000
Long distance telephone	323,000	293,000	30,000
Selling expense	1,541,000	1,356,000	185,000
Commissions to agencies and networks	4,620,000	5,187,000	(567,000)
Payments to private stations	4,851,000	5,279,000	(428,000)
Other	25,634,000	23,736,000	1,898,000
	<u>107,611,000</u>	<u>100,953,000</u>	<u>6,658,000</u>

Salaries and wages accounted for \$4,393,000 or 66% of the total increase in expenses. \$2,482,000 of this increase was due to salary scale adjustments and built-in increases, \$750,000 relates to a full year's salary for employees engaged during the previous year, \$180,000 was for additional overtime and \$981,000 was attributed to salary costs for 336 employees engaged during the year, of whom 90 were employed at the new television station in Edmonton. The remainder of the increase in expenses and part of the salary costs for newly-engaged personnel is ascribed by the Corporation to the operating costs of the new television station in Edmonton, equating of hours of the French language television station in Montreal with those of the English language station, extension of radio and television networks for improved coverage, increase of 5.6% in the total broadcast hours of television stations and increased administrative and supervisory costs.

Included in the \$175,500 for executive officers' remuneration shown in the note to the Statement of Operations are the salaries of the President and Vice-President of the Corporation, \$20,000 and \$16,000, respectively. Section 22 of the Broadcasting Act, 1958, c.22 provides for the appointment of a President and a Vice-President of the Canadian Broadcasting Corporation by the Governor in Council, and the present incumbents were duly appointed by Orders in Council P.C. 1958-1940 dated November 10, 1958 and P.C. 1960-94 dated January 26, 1960. However, their salaries have not been fixed by the Governor in Council, as required by section 25 of the Act and they were paid at rates applicable to the General Manager and Assistant General Manager of the Canadian Broadcasting Corporation as established by Order in Council P.C. 1954-1953 dated December 8, 1954. This apparent lack of authority for the remuneration of the President and Vice-President has been drawn to the attention of the

management of the Corporation and we were informed that such action as may be required to remedy the situation will be taken.

The Corporation has paid representation allowances to these two senior officers for a number of years. The amounts currently approved by the Board of Directors are at the rate of \$3,000 per annum for the President and \$2,500 per annum for the Vice-President and monthly payments during the year ended March 31, 1962 totalled \$2,510 and \$2,355, respectively. We have advised the Comptroller that the claims for reimbursement should be supported by receipted vouchers and details of representation undertaken which are not presently provided. In the absence of such supporting evidence these payments could be regarded as income of the officers concerned under the Income Tax Act. These payments are not reported by the Corporation in its annual Return of Remuneration Paid filed with the Taxation Division of the Department of National Revenue.

BALANCE SHEET

Cash—\$3,422,119

At March 31, 1962 this item comprised the following balances:

Cash on hand and on deposit—

Head Office	\$2,905,204
Regional Offices	364,865
Contractors' security deposits	152,050
	<hr/>
	3,422,119
	<hr/>

The cash on hand was verified by actual count and the balances on deposit were confirmed by certificate received directly from the banks concerned and reconciled with the balances in the Corporation's accounts.

Accounts Receivable—\$3,950,121

Details of the balances comprising this account, with comparative figures for the previous year, are as follows:

	Year ended March 31,	
	1962	1961
Trade receivables	\$3,290,073	\$3,575,817
Due from employees re purchase of Canada Savings Bonds	290,051	264,076
Travel advances	96,137	96,968
Group insurance dividends receivable	92,408	43,369
Trade accruals	24,465	37,032
Accrued interest on savings account	18,917	59,216
Miscellaneous	148,070	152,685
	<hr/>	<hr/>
Less: Allowance for doubtful accounts	10,000	10,000
	<hr/>	<hr/>
	3,950,121	4,219,163
	<hr/>	<hr/>

Confirmation of the balances of trade accounts receivable at January 31, 1962 was carried out on a co-operative basis by our office and the internal auditors of the Corporation. In each region, we requested a selected group of debtors to confirm the balance of their accounts directly to our office, and the remainder of the receivables were confirmed directly to the internal auditors, whose procedures and findings we reviewed. This test circularization revealed no material discrepancies.

The allowance for doubtful accounts, which was deducted from the accounts receivable figure for balance sheet presentation, remained unchanged from the allowance of \$10,000 at the close of the previous year. During the year under review accounts totalling \$5,523 were written off as uncollectible with the approval of the Finance Committee. This compares with similar write-offs last year of \$12,490.

Investment in Government of Canada Bonds—\$1,457,031

This item, unchanged during the year, represents \$1,500,000 2½% Government of Canada bonds due June 15, 1968. The market value at March 31, 1962, including accrued interest, was \$1,389,000. The securities on hand at March 31, 1962 were verified by actual count.

Engineering and Production Supplies—\$1,569,345

The following is a summary showing the changes in the stores inventories at March 31, 1962 and 1961:

	Year ended March 31,		
	1962	1961	Decrease
Engineering supplies	\$ 577,424	\$ 635,235	\$ 57,811
Production supplies	991,921	1,320,410	328,489
Stationery supplies	228,815	228,815
	<hr/> 1,569,345	<hr/> 2,184,460	<hr/> 615,115

A change in the method of accounting in March 1962 reflected the decision to charge certain supplies directly to expense at the time of purchase. This involved removing from inventories stationery stores valued at \$254,888, technical stores consisting of partially used videotapes valued at \$396,910 and partially used image orthicon tubes valued at \$4,307, and production supplies consisting of "flats", or background scenery, valued at \$44,943. The effect of this change in accounting procedure is that expenditures for stationery will be charged against operations when supplies are purchased, rather than, as has been the practice, when they are used; videotapes will be charged to operations on first use when withdrawn from stores, a departure from the previous practice of charging a portion of the cost of the tape to operations on each "pass"; and the practice in the Quebec Region of carrying "flats" as an inventory item will be discontinued to conform with usage throughout the other regions. The management of the Corporation believe that the implementation of this policy will eliminate the need for certain detailed accounting records and thereby reduce manpower requirements, while the continuance of existing physical controls will be adequate for control requirements.

In addition to the reduction in engineering and production supplies inventory of \$701,049 brought about by the change in accounting procedures, the Corporation also wrote off from inventory accounts an amount of \$85,894 made up as follows:

Stationery supplies—unuseable and obsolete stock	\$ 4,312
Technical supplies—including \$59,575 at National Engineering Headquarters representing the write-off of the balance of the items remaining on decentralization of the technical stores	76,904
Production supplies—net of small overages and shortages revealed by physical inventory and unuseable and obsolete supplies	4,678
	<hr/> 85,894

We observed the physical stocktaking of floor inventories at the various regions at the year-end, tested the accuracy of controlled stores by physical examination and subsequent comparison with perpetual stock records during the year and generally tested inventory quantities and prices to the extent considered appropriate.

Programs Completed and in Process of Production—\$3,341,001

The balance in this account increased by \$1,212,028 or 57% over the balance at the end of the previous year, as shown in the following analysis:

	Year ended March 31,		
	1962	1961	Increase
Programs completed	\$1,988,222	\$1,436,862	\$ 551,360
Programs in process of production	1,352,779	692,111	660,668
	<u>3,341,001</u>	<u>2,128,973</u>	<u>1,212,028</u>

This increase is attributed by the Corporation to the increased use of videotapes for recording programs in advance of broadcast. Inventory in the Quebec region accounts for 79% of the increase, \$513,652 in completed programs and \$448,383 in programs in process of production.

Write-offs from this account during the year amounted to \$206,913, compared with \$53,109 during the previous year. Included among the write-offs are the following:

Cuba Si—an abandoned program described as “valueless for telecasting purposes”	\$ 42,633
High Arctic Hunter—a program cancelled while in process of production due the evacuation of an Eskimo community on which the program was based, because of the outbreak of an epidemic	31,557
Reve de Valse—rights not available	15,304
R.C.M.P. television series—amount by which Corporation’s investment of \$273,000 in this series exceeded \$206,111 revenue earned	66,889
Miscellaneous—including programs abandoned while in process of production, preempted, cancelled due to technical difficulties, performers’ illnesses, etc.	50,530
	<u>206,913</u>

Film and Script Rights—\$1,656,324

This item shows a decrease of \$325,817 from the balance of prepaid film and script rights at March 31, 1961 of \$1,982,141. A comparative summary follows:

	Year ended March 31,		
	1962	1961	Decrease
Prepaid film rights	\$ 1,513,524	\$ 1,809,401	\$ 295,877
Prepaid script rights	142,800	172,740	29,940
	<u>1,656,324</u>	<u>1,982,141</u>	<u>325,817</u>

The decrease of \$295,877 in prepaid film rights is largely attributable to the effective tightening of commitment procedures and reduction in terms for which the rights were acquired in the Ontario region, where a reduction of \$342,000 was achieved. In the Quebec region, prepaid film rights increased by \$26,000, with the amount invested in film rights in that region amounting to approximately \$1,298,000 at March 31, 1962, or 85% of the total amount so invested, as compared with \$1,272,000 or 70% of the total invested at the close of the preceding year.

In addition to the \$1,513,524 carried in prepaid film rights as amounts paid for films awaiting broadcast, the Corporation at March 31, 1962 was committed under contract to purchase film rights to a value of \$5,237,000. Commitments at the same date last year amounted to \$4,338,000.

The Corporation wrote off as a charge to operations for the year an amount of \$165,185 in determining the inventory values of prepaid film and script rights at the year-end. An analysis of this write-off is given in the following summary:

Film rights written off due to expiry of contracts, unsuitability of films for broadcast because of program content or technical quality and changes in programming	\$ 127,868
Script rights expired	34,417
Portion of script writer's salary chargeable to pro- grams	2,900
	<hr/>
	165,185

The comparable write-off for the previous year was \$241,536.

Capital Assets—\$32,036,304

The capital budget of the Corporation was approved by Order in Council P.C. 1961-494 dated March 30, 1961. Vote 44, Appropriation Act No. 5, 1961 provided a grant of \$9,640,000 for capital requirements, including the replacement for existing capital assets of the radio and television services. With the total amount of the grant being drawn down, and capital expenditures during the year amounting to \$6,214,232, the balance of \$3,425,768 remaining unexpended at the year-end lapsed; \$3,000,000 was refunded to the Receiver General in March 1962 and \$425,768 was refunded early in the current year.

Major capital additions during the year included the construction and equipping of a studio, office building and television transmitter at Edmonton, the purchase of five mobile videotape recording units at Montreal, Halifax, Toronto, Ottawa and Edmonton, modification of existing videotape recording equipment, purchase and installation of two videotape recording units at Montreal, construction of a television tower antenna at Montreal, installation of a low power television station at Mont Laurier, Quebec, and enlargement of the equipment room at Ottawa. A net book loss of \$14,353 was experienced during the year on the disposal of capital assets which originally cost \$268,260, after giving effect to accumulated depreciation of \$191,872 and proceeds from sales of \$62,035. This loss is reflected in the Statement of Proprietor's Equity Account.

During the past three years, expenditures totalling \$1,869,000 have been made in connection with the proposed consolidation of facilities in Toronto, Montreal and Ottawa. The estimate of the cost of this consolidation, as set out in summary form in the Minutes of Proceedings of the Special Committee on Broadcasting (Appendix B of No. 27 of June 7, 1961, page 804), amounts to \$46,560,000 during the five-year period ending March 31, 1966, together with \$26,986,000 required in subsequent years to complete the projects. An estimated cost of \$69,335,000 to complete the consolidation was approved by the Board of Directors on October 30, 1959 and submitted to the Minister of National Revenue and the Minister of Finance on November 6, 1959, in accordance with the provisions of section 35(2) of the Broadcasting Act. The footnote to the Balance Sheet as at March 31, 1962 sets out that the estimated total cost of the proposed consolidation would be \$81,087,000, of which approximately \$2,890,000 would be expended during the year ended March 31, 1963 and \$76,328,000 during the three years ended March 31, 1966. At the time this report was prepared, a revised capital budget for the year ended March 31, 1963 had been submitted for approval by Governor in Council. In this budget the estimated expenditure on the consolidation project for the 1962-63 fiscal year is shown as \$1,578,000. The extent to which expenditures may actually be incurred is subject to the provision of funds by annual parliamentary appropriations.

With the rapid expansion of the Corporation over the past ten years, the physical and accounting control over capital assets has been a matter of some concern. Accordingly, the management has set up study and working groups to identify the specific problems in this area and to come forward with recommendations for their solution. The working group is presently taking inventory of all capital assets throughout the Corporation. When this physical inventory is completed and reconciled with the accounting records, the recommendations of the working group will be considered by the management and implemented to the end of establishing and maintaining improved physical and accounting control over the capital assets of the Corporation.

Accounts Payable and Accrued Liabilities—\$6,142,004

The composition of this liability, compared with that at March 31, 1961, is as follows:

	Year ended March 31,		Increase (Decrease)
	1962	1961	
Trade accounts payable	\$ 4,236,174	\$ 3,656,966	\$ 579,208
Due to Federal Government departments	608,122	509,789	98,333
Due to Provincial Governments	37,961	67,009	(29,048)
Pension plan contributions ..	496,461	412,547	83,914
Accrued overtime salaries ...	316,219	204,424	111,795
Contractors' security deposits and holdbacks	216,846	172,000	44,846
Other items accrued and payable	230,221	100,967	129,254
	<u>6,142,004</u>	<u>5,123,702</u>	<u>1,018,302</u>

The increase in trade accounts payable is due to a deceleration in the payment of accounts and also to a change in payment policy so as to make payment to private stations within thirty days.

The management of the Corporation has certified as to the correctness of the above liability figure; that there were no contingent liabilities as at March 31, 1962; that contractual obligations and purchase commitments of the Corporation were not in excess of normal requirements; and that no contract of material importance had been entered into not in the ordinary course of business.

Proprietor's Equity Account—\$41,026,304

The equity of the Crown in the Canadian Broadcasting Corporation at March 31, 1962 amounted to \$41,026,304, comprising working capital of \$9,000,000 (\$6,000,000 as provided by section 39(1) of the Broadcasting Act and a further \$3,000,000 advanced for the purpose of increasing working capital by Vote 759, Appropriation Act No. 2, 1961) and \$32,026,304 net book value of fixed assets. This represents an increase of \$2,154,192 over the equity of \$38,872,112 at March 31, 1961. Details of this increase were as follows:

Parliamentary grant for capital requirements—

Vote 44, Appropriation Act No. 5, 1961 ..	\$ 9,640,000
Less: Amount of Vote 44 not expended	3,425,768
	<hr/>
	\$ 6,214,232

Cost to Department of National Health and Welfare of emergency transportable radio transmitters transferred to the Corporation under authority of Order in Council

P.C. 1960-23/884, June 29, 1960	272,662
Less: Accumulated depreciation to March 31, 1961	109,065
	<hr/>
	163,597
	<hr/>
	6,377,829

Deduct: Portion of net result of operations

represented by depreciation	4,039,041
Write-off of improvement to properties held under lease	170,243
Net loss on retirement of capital assets	14,353
	<hr/>
	4,223,637
	<hr/>
	2,154,192
	<hr/>

Under the provisions of the Public Service Re-arrangement and Transfer of Duties Act, R.S., c. 227, Order in Council P.C. 1960-23/884 transferred responsibility for emergency broadcasting from the Emergency Measures Organization, Department of National Health and Welfare, to the Canadian Broadcasting Corporation and the Corporation acts as agent of the Federal

government in coordinating the broadcasting activities of all stations forming part of the emergency network. The portable radio transmitters originally purchased by the Emergency Measures Organization at a cost of \$272,662 were transferred to the Corporation during the year under review. Accordingly an amount of \$163,597, which is the original cost of the transmitters less accumulated depreciation to March 31, 1961 of \$109,065, has been added to the capital assets and proprietor's equity accounts of the Corporation.

TRUSTEE PENSION PLAN

The Board of Governors of the Canadian Broadcasting Corporation, pursuant to authority under section 8(m) of the Canadian Broadcasting Act, 1936, c.24, and By-Law No. 6(1) of the Corporation, by resolution established the Group Annuity Plan for the Retirement of Employees of the Canadian Broadcasting Corporation which became effective on April 1, 1943.

By resolution of the Board of Directors of the Corporation at a meeting held June 26-29, 1961, under authority of section 26(2) of the Broadcasting Act, 1958, c.22, the By-Laws were amended by the addition of section 17 establishing a new Pension Fund for the Directors, Officers and Employees of the Corporation and their Dependents, which came into force on September 1, 1961. The Board of Directors also by resolution at the same meeting authorized management to terminate the Group Annuity Plan for the Retirement of Employees of the Canadian Broadcasting Corporation as of August 31, 1961. The President and the Principal Financial Officer of the Corporation, under date of September 1, 1961 directed that the balance in the CBC Pension Trust General Reserve Fund be paid to The Mutual Life Assurance Company of Canada to be applied to increase by a uniform proportion the normal current service annuities in respect of each employee registered in the Plan at August 31, 1961. The balance in the General Reserve Fund amounting to \$2,805,684 was paid to The Mutual Life Assurance Company of Canada, of which \$2,637,098 was paid during the fiscal year ended March 31, 1962 and \$168,586 was paid during the period April 1 to May 15, 1962, to purchase annuities to increase by 25.5% the aggregate regular 2% current service annuity for each employee registered in the Plan at August 31, 1961.

For the purpose of implementing the CBC Trustee Pension Plan, the Corporation and the CBC Pension Board of Trustees executed a Trust Deed under date of August 3, 1961 setting forth the manner in which the Plan is to be administered. Section 3 of the Trust Deed provides that there shall be seven trustees, a majority of whom shall either hold office as directors of the Corporation or be officers employed full-time by the Corporation. The President, the senior executive officer responsible for personnel and the senior executive officer responsible for finance shall be trustees by virtue of their office with the Corporation, and all other trustees shall be appointed by the Corporation. At the date of this report, there are six trustees, one vacancy having existed since the inception of the Plan.

Under the provisions of section 7(3) of the Trust Deed, the Corporation selected the Montreal Trust Company and The Royal Trust Company for appointment by the Trustees as agents to make and manage investments for the Fund. The Trustees, by agreements dated September 18, 1961, engaged these agents to act in this capacity and to perform certain other routine administrative functions.

No provision is made in the Trust Deed for independent actuarial valuations in the future to determine the soundness of the Pension Fund, and in our report to the CBC Pension Board of Trustees dated June 20, 1962 concerning the accounts and financial statement for the period from the date of inception September 1, 1961 to March 31, 1962, we recommended that the Trust Deed be amended to provide that the Trustees obtain such a valuation at least once every five years.

SPECIAL SURVEY

In our report last year we referred again to the recommendations made two years ago to the Board of Directors that in our opinion a useful purpose would be served by having the organizational structure of the Corporation in terms of its present size, complexity and costs made the subject of a study by independent management consultants working in co-operation with our office. We understand that a study of this nature was completed by the Royal Commission on Government Organization during the fiscal year ended March 31, 1962 but at the time of the preparation of this report the contents of this portion of the Commission's report are not yet available.

We shall be glad to furnish you with any additional information you may wish in connection with our examination or this report.

A. M. Henderson,
Auditor General of Canada.

AUDITOR GENERAL OF CANADA

Ottawa, June 4, 1962.

The Honourable G. C. Nowlan,
Minister of National Revenue, Ottawa.

Sir,

The accounts and financial statements of the Canadian Broadcasting Corporation have been examined for the year ended March 31, 1962. In compliance with the requirements of section 87 of the Financial Administration Act, I now report that, in my opinion:

- (a) proper books of account have been kept by the Corporation;
- (b) the financial statements of the Corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the Corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of operations, give a true and fair view of the operations of the Corporation for the financial year; and
- (c) the transactions of the Corporation that have come under my notice have been within the powers of the Corporation under the Financial Administration Act and any other Act applicable to the Corporation.

Yours faithfully,

A. M. Henderson,
Auditor General of Canada.

NOTE: Proposed Consolidation of Facilities in Toronto, Montreal and Ottawa.

Capital assets shown above in the amount of \$55,890,783 include the sum of \$1,869,000 expended during the last three years in connection with the proposed consolidation of facilities in Toronto, Montreal and Ottawa. It is estimated that the total cost of consolidation of facilities at these locations will be \$81,087,000, of which, subject to the provision by Parliament of annual appropriations for the purpose, approximately \$2,890,000 will be expended during the year ending March 31, 1963 and \$76,328,000 during the three years ending March 31, 1966.

Certified correct:

V. S. Davies,
Comptroller

Approved on behalf of the Corporation:

J. A. Ouimet,
President
R. L. Dunsmore,
Director
C. Leeson,
Director

The above Balance Sheet and the related Statements of Operations and of Proprietor's Equity Account have been examined and reported upon under date of June 4, 1962 to the Minister of National Revenue, as required by section 87 of the Financial Administration Act.

A. M. Henderson
Auditor General of Canada

CANADIAN BROADCASTING CORPORATION

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1962
(with comparative figures for the year ended March 31, 1961)

	Programs without Advertising	Programs with Advertising	1962	1961
<i>Expense</i>				
Cost of Production and Distribution—				
Cost of programs.....	\$ 49,784,695	\$ 17,711,100	\$ 67,495,795	\$ 62,784,251
Network distribution.....	7,886,357	2,047,474	9,947,013	9,237,351
Station transmission.....	2,999,703	893,443	3,893,146	3,635,492
Payment to private stations.....	—	4,851,069	4,851,069	5,278,928
Commissions to agencies and networks...	—	4,620,207	4,620,207	5,187,441
	<u>60,670,755</u>	<u>30,123,293</u>	90,807,230	86,123,463
Northern Radio Service.....			993,343	760,126
Operational Supervision and Services:				
Program.....		3,276,299		2,806,282
Administrative.....		3,459,680		3,098,118
General.....		2,106,963		1,926,246
			<u>8,842,942</u>	<u>7,830,646</u>
Total Cost of Production and Distribution.....			100,643,515	94,714,235
Selling and General Administration:				
Selling expense.....		1,540,736		1,356,026
Engineering and development.....		943,128		899,720
Management and central services.....		4,483,775		3,982,844
			<u>6,967,639</u>	<u>6,238,590</u>
Total Expense for the Year.....			<u>107,611,154</u>	<u>100,952,825</u>
<i>Income</i>				
Advertising revenue (gross).....	32,910,118			37,601,651
Interest on investments.....	185,291			145,645
Miscellaneous.....	224,431			340,927
			33,319,840	38,088,223
<i>Parliamentary Grant</i>				
In respect of the net operating requirements of the radio and television services:				
Vote 43 Appropriation Act No. 5, 1961....	70,418,000			
Less: Amount of Vote 43 not expended to be refunded.....	165,727			
	<u>70,252,273</u>			59,288,476
			103,572,113	97,376,699
Depreciation included in total expense for the year.....			4,039,041	3,576,126
			<u>107,611,154</u>	<u>100,952,825</u>

NOTE: Included in the above expenses for 1962 are \$175,500 for executive officers' remuneration, \$33,700 for directors' honoraria and \$14,991 for legal expenses.

EXHIBIT III

CANADIAN BROADCASTING CORPORATION

STATEMENT OF PROPRIETOR'S EQUITY ACCOUNT FOR THE YEAR ENDED MARCH 31, 1962

Balance as at April 1, 1961.....			\$ 38,872,112
Parliamentary Grant for the capital requirements of the radio and television services for the year ended March 31, 1962:			
Vote 44 Appropriation Act No. 5, 1961.....	\$ 9,640,000		
Less: Amount of Vote 44 not expended—			
Refunded March 1962.....	\$ 3,000,000		
To be refunded.....	425,768		
		3,425,768	
		6,214,232	
Add: Cost to the Department of National Health and Welfare of Emergency Transportable Radio Transmitters transferred to the Corporation under authority of Order in Council P.C. 1960-23/884 dated June 29, 1960	272,662		
Less: Accumulated depreciation to March 31, 1961....	109,065		
		163,597	
		6,377,829	
			45,249,941
Deduct:			
Depreciation included in total expense for the year per Statement of Operations.....	4,039,041		
Write-off of improvements to properties held under lease.....	170,243		
Net loss on retirement of capital assets.....	14,353		
		4,223,637	
Balance as at March 31, 1962.....			41,026,304

CANADIAN BROADCASTING CORPORATION

Report to the Board of Directors
on the examination of the accounts and financial statements
for the year ended March 31, 1963

AUDITOR GENERAL OF CANADA

Ottawa, November 22, 1963.

The Board of Directors,
Canadian Broadcasting Corporation,
Ottawa.

We have examined the accounts and financial statements of the Canadian Broadcasting Corporation for the year ended March 31, 1963, pursuant to the provisions of section 34(2) of the Broadcasting Act, 1958, c. 22, under which the Auditor General of Canada is designated auditor of the Corporation.

In compliance with section 87 of the Financial Administration Act a report, in the form required by the section and containing no qualification, was addressed to the Secretary of State under date of June 3, 1963 and copies were made available for distribution to the Directors. A copy of that report together with the financial statements of the Corporation, comprising the Balance Sheet as at March 31, 1963 and Statements of Operations and of Proprietor's Equity Account for the year then ended are attached for convenient reference.

The accounting functions of the Corporation are decentralized, and during the year we examined the accounts and records at the Head Office in Ottawa, National Engineering Headquarters in Montreal and regional offices located in Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver. Our examination was made in accordance with generally accepted auditing standards, and included a general review of the accounting procedures and system of internal control, together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

A copy of this report is being sent to the Secretary of State who was designated as the appropriate Minister with respect to the Corporation for the purposes of the Financial Administration Act by Order in Council P.C. 1963-678 of April 30, 1963.

RESULTS OF OPERATIONS

The sum of \$73,244,000 was provided by the Government of Canada as a "Grant in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service" for the year ended March 31, 1963, \$61,661,000 under authority of parliamentary appropriations and \$11,583,000 under authority of Governor General special warrants. Subsequently the full amount was authorized by Parliament by an item in the Special Appropriation Act, 1963. With the net operating amount required amounting to \$72,654,738 (exclusive of depreciation charges totalling \$4,308,552 which are included as an expense for cost ascertainment purposes), the unexpended balance of \$589,262 was recorded as a liability of the Corporation at the year-end and refunded to the Receiver General on May 31, 1963.

The net amount required of \$72,654,738 for the year under review is compared with that of the three previous years in the following summary:

	Year ended March 31			
	1963	1962	1961	1960
Expense:				
Cost of production and distribution	\$101,097,131	\$100,643,515	\$ 94,714,235	\$ 88,336,815
Selling and general administration	7,268,751	6,967,639	6,238,590	5,702,950
Total Expense ..	108,365,882	107,611,154	100,952,825	94,039,765
Advertising income, etc. .	31,402,592	33,319,840	38,088,223	38,563,940
Net Expense	76,963,290	74,291,314	62,864,602	55,475,825
Less: Depreciation charged as expense for cost ascertainment purposes	4,308,552	4,039,041	3,576,126	3,175,547
Net operating amount required	72,654,738	70,252,273	59,288,476	52,300,278

An operating budget of \$74,994,000 for the year ended March 31, 1963 was approved by the Board of Directors at a meeting held April 17, 18 and 19, 1962. Subsequently a reduction of \$1 million was effected in compliance with the government's austerity program and approved by the Board of Directors at a meeting held September 5, 6 and 9, 1962 and an operating budget of \$73,994,000 was approved by Order in Council P.C. 1962-1834 dated December 21, 1962. The following table shows a comparison of the operating budget with the actual results of operations for the year:

	Budget	Actual	Actual Over (under) Budget
Artists', speakers', musicians' fees, copyrights, performing rights, manuscripts and plays	\$ 17,408,000	\$ 17,309,000	\$(99,000)
Film purchases and rentals	8,391,000	8,880,000	489,000
Network transmission	8,757,000	8,331,000	(426,000)
Building rental and maintenance	3,779,000	3,708,000	(71,000)
Salaries and wages	44,138,000	44,063,000	(75,000)
Unemployment insurance, pension contribution expenses	2,997,000	3,009,000	12,000
Departmental expenses generally	13,309,000	12,454,000	(855,000)
	98,779,000	97,754,000	(1,025,000)
Less: Expenditures recovered from capital grant and other departments	2,285,000	2,401,000	116,000
	96,494,000	95,353,000	(1,141,000)
Less: Commercial revenue (net of agency and U.S. Network commissions and payments to private stations) ..	22,500,000	22,698,000	198,000
Net operating amount required	73,994,000	72,655,000	(1,339,000)

As shown by the table on Page 3, the net operating amount required by the Corporation increased by \$2,402,465 from \$70,252,273 for the year ended

March 31, 1962 to \$72,654,738 for the year ended March 31, 1963, an increase of 3.4% compared with the previous year's increase of \$10,963,797 or 18.5%.

Both increasing expenses and declining revenues have continued to contribute to the enlarged net operating amounts required: expenses increased to the extent of \$485,217 and revenues declined to the extent of \$1,917,248.

Expense

Details of increases and decreases in the various expense classifications giving rise to a net increase of \$754,728 follow:

	Year ended March 31,		Increase (Decrease)
	1963	1962	
Salaries and wages	\$44,063,000	\$ 41,701,000	\$ 2,362,000
Performers' fees, artists', speakers' and other rights	17,309,000	18,301,000	(992,000)
Film purchases and rentals	8,880,000	8,620,000	260,000
Payments to private stations	4,334,000	4,851,000	(517,000)
Commissions to agencies and net- works	3,872,000	4,620,000	(748,000)
Employment expenses other than salaries and wages	3,009,000	2,346,000	663,000
Travelling and duty entertainment	1,897,000	2,020,000	(123,000)
Other	25,002,000	25,152,000	(150,000)
	<u>108,366,000</u>	<u>107,611,000</u>	<u>755,000</u>

The increase in salaries and wages, which accounted for more than the overall increase in expenses, is mainly attributed to the provisions of the collective bargaining agreements together with an increase in the number of employees during the first four months of the fiscal year. Staff reductions during the balance of the year more than offset this early increase and by March 31, 1963 the Corporation had 179 fewer employees than at the end of the previous year.

Included in salaries and wages as stated in Note 5 to the Financial Statements are the executive officers' remuneration of \$195,600 which includes the salaries of the President and Vice-President of the Corporation, \$20,000 and \$16,000, respectively. In our report last year we pointed out that while these officers were duly appointed by Order in Council in accordance with the requirement of section 22 of the Broadcasting Act, their salaries had not been fixed by the Governor in Council as stipulated by section 25 of the Act and they were paid at rates equivalent to those previously applicable to the General Manager and Assistant General Manager of the Corporation. This lack of authority with respect to the remuneration of the President and Vice-President was not remedied during the year under review.

The reduction in the amount paid to private stations is mainly due to the disaffiliation from the network of CHCH-TV, Hamilton, and CFRN-TV, Edmonton. This disaffiliation has, of course, also resulted in cessation of revenue from these sources.

Commissions paid to agencies were reduced by \$307,000 from \$3,476,000 for the year ended March 31, 1962 to \$3,169,000 for the year ended March 31, 1963 and payments to networks fell by \$441,000 from \$1,144,000 to \$703,000. The decrease in commission payments was directly related to reduced revenue, while the decrease in payments to networks was the result of reduced purchases

of "feeds" from networks in the United States. The purchases of "feeds" have been reduced by approximately 76% since 1959, as shown in the following table:

Year ended March 31, 1959	\$2,896,000
1960	1,746,000
1961	1,202,000
1962	1,144,000
1963	703,000

The increase of \$663,000 in employment expenses other than salaries and wages is the result of a number of factors. With expenditure in salaries and wages increasing by \$2,362,000, other employment expenses increased accordingly. Moreover, the Corporation's contribution to the Canadian Broadcasting Corporation pension plan which commenced on September 1, 1961, amounts to 7½% of salaries and wages for male employees and 6% for female employees, whereas the contribution under the former retirement plan was 6% for both—and married women, who were ineligible under the former plan, are eligible to join the new plan. The year ended March 31, 1963 is the first full twelve month period during which increased contributions were made. In addition, during the year the Corporation made contributions for the first time to the pension fund for certain employees who, as members of the International Alliance of Theatrical Stage Employees and Moving Picture Machine Operators, did not previously contribute to the CBC pension plan.

Income

As shown in the summary on Page 3, advertising income, etc., continued to diminish. The following is a summary of various classes of income for the past two years:

	<i>Year ended March 31,</i>		<i>Increase</i>
	<i>1963</i>	<i>1962</i>	<i>(Decrease)</i>
Advertising	\$30,846,627	\$ 32,910,118	\$ 2,063,491)
Interest on investments	253,898	185,291	68,607
Miscellaneous	302,067	224,431	77,636
	<u>31,402,592</u>	<u>33,319,840</u>	<u>(1,917,248)</u>

A decrease in television advertising revenue of \$2,198,000 was offset to a small degree by increased radio advertising revenue of \$134,000. Continuing and increased competition from independent television stations and a private television network are cited by the Corporation as the reasons for this reduction. As noted earlier in this report, the disaffiliation of two stations from the CBC network has also contributed to the declining revenue although the inauguration of station CBXT-TV in Edmonton on October 1, 1961 has alleviated the loss of revenue from these stations.

The Statement of Operations (Exhibit II) segregates Cost of Production and Distribution under the headings of "Programs without Advertising, \$63,586,267" and "Programs with Advertising, \$28,801,732". The former classification comprises two types of programs: those which are available for advertising but which have not attracted advertising revenue; and programs of a public service nature which, because of Corporation policy, are not available to prospective advertisers. A segregation of the total cost of "Programs without Advertising" under these headings follows:

	<i>Programs Available for Advertising</i>	<i>News and Public Service Programs</i>	<i>Total</i>
Cost of programs	\$22,526,072	\$29,967,073	\$52,493,145
Network distribution ..	2,788,387	5,177,794	7,966,181
Station transmission ...	1,202,342	1,924,599	3,126,941
	<hr/> 26,516,801	<hr/> 37,069,466	<hr/> 63,586,267

The total cost of production and distribution of programs with advertising potential, therefore, is \$55,318,533, comprised of the \$26,516,801 shown above and \$28,801,732 shown as cost of production and distribution of programs with advertising. As gross advertising revenue only amounted to \$30,846,627, the difference of \$24,471,906 was required to be met from the parliamentary grant during the year.

BALANCE SHEET

Cash—\$3,617,059

The following were the balances comprising this item at March 31, 1963 and 1962:

	<i>March 31,</i>	
	<i>1963</i>	<i>1962</i>
Cash on hand and on deposit—		
Head Office	\$3,279,511	\$2,905,204
Regional Offices	319,683	364,865
Contractors' security deposits	17,865	152,050
	<hr/> 3,617,059	<hr/> 3,422,119

Cash on hand in all regional offices except Newfoundland (\$475) was verified by actual count. Balances on deposit were confirmed by certificate received directly from the banks concerned and reconciled with the balances in the Corporation's accounts.

Accounts Receivable—\$3,664,761

The following is a summary of the balances comprising accounts receivable at March 31, 1963 and 1962:

	<i>March 31,</i>	
	<i>1963</i>	<i>1962</i>
Trade receivables	\$3,158,498	\$3,314,538
Travel advances	205,229	96,137
Accrued interest on savings account .	13,100	18,917
Accrued interest on investments	12,031	12,031
Group insurance dividend receivable .	..	92,408
Due from employees re purchase of Canada Savings Bonds	290,051
Miscellaneous	285,903	148,070
	<hr/> 3,674,761	<hr/> 3,972,152
Less: Allowance for doubtful accounts	10,000	10,000
	<hr/> 3,664,761	<hr/> 3,962,152

Confirmation of the balances of trade accounts receivable at the year-end and at various dates during the year was carried out jointly by our office and the internal auditors of the Corporation. In each region we requested a selected group of debtors to confirm the balances of their accounts directly to our office, and the remainder of the receivables were confirmed directly to the internal auditors, whose procedures and findings we reviewed. This test circularization revealed no material discrepancies.

The allowance for doubtful accounts, which was deducted from the accounts receivable figure for balance sheet presentation, remained unchanged from the allowance of \$10,000 at the close of the previous year. During the year under review accounts totalling \$3,345 were written off with the approval of the Finance Committee. This compares with similar write-offs last year of \$5,523.

Investment in Government of Canada Bonds—\$1,445,000

This item, unchanged during the year, represents the cost of \$1,500,000 2½% Government of Canada bonds due June 15, 1968. The market value at March 31, 1963 was \$1,380,000. We verified the securities on hand at the year-end by actual count.

Engineering and Production Supplies—\$1,645,955

A summary of the balances comprising this item, with the comparable amounts at March 31, 1962, is as follows:

	March 31,		Increase
	1963	1962	
Engineering supplies	\$ 1,157,321	\$ 1,083,069	\$ 74,252
Production materials	400,304	400,059	245
Engineering work in process	88,330	86,217	2,113
	<u>1,645,955</u>	<u>1,569,345</u>	<u>76,610</u>

Of the increase of \$74,252 in engineering supplies, \$42,000 was in controlled stores in the Ottawa regional office, where a new storage area was set up in 1962, and \$32,000 was in technical floor inventories in the Prairies Region for the Edmonton television station operation.

During the year, the Corporation wrote off from the inventory accounts \$2,086 in engineering supplies and \$939 in production materials. Comparable deletions in the previous year were \$76,904 in technical supplies (which included \$59,575 at National Engineering Headquarters, representing the write-off of the balance then remaining on decentralization of the technical stores) and \$4,678 in production materials.

We observed the physical stocktaking of floor inventories at the various regions at the year-end, tested the accuracy of controlled stores by physical examination, made comparisons with perpetual stock records during the year and generally tested inventory quantities and prices to the extent we considered appropriate.

Programs Completed and in Process of Production—\$3,588,990

The cost of programs completed and in process of production at March 31, 1963 increased by \$247,889 over that at the end of the previous year, as shown by the following analysis:

	March 31,		Increase
	1963	1962	(Decrease)
Programs completed	\$ 2,354,951	\$ 1,988,222	\$ 366,729
Programs in process of production ...	1,234,039	1,352,779	(118,740)
	<u>3,588,990</u>	<u>3,341,001</u>	<u>247,989</u>

The cost of programs completed and in process of production in the various regions at March 31, 1963 and 1962 were as follows :

	March 31,		Increase
	1963	1962	(Decrease)
Ontario and English network	\$ 1,637,541	\$ 1,259,316	\$ 378,225
Quebec and French network	1,634,162	1,599,484	34,678
British Columbia	102,577	142,327	(39,750)
Prairies	89,129	132,860	(43,731)
Maritimes	89,529	133,527	(50,998)
Other	43,052	73,487	(30,435)
	<u>3,588,990</u>	<u>3,341,001</u>	<u>247,989</u>

The bulk of the program inventory continued to be in Toronto and Montreal for the English and French networks, respectively, and included programs recorded in advance of broadcast on videotape (\$2,277,000) and film (\$1,176,000). We have been informed that approximate telecast dates of the programs comprising the inventory at March 31, 1963 are:

April to June, 1963	\$1 1,935,725
July to September, 1963	218,068
After September, 1963	916,552
To be announced	518,645
	<u>3,588,990</u>

Write-offs from the account during the year amounted to \$115,119, compared with \$206,193 during the previous year. The write-off represents the cost of 106 programs or parts of programs abandoned because of performer, technical or scheduling difficulties or pre-emptions. Most of the programs written off involved costs of less than \$1,000; however, two items involving more material amounts were:

- (i) L'Homme Devant La Science and Histoires Extraordinaires—the cost of six episodes on film in process of production was written off when the producer became bankrupt and was unable to deliver films, after the Corporation had made progress payments and advances totalling \$44,917.
- (ii) Christmas at Alberta Game Farm—a program which cost \$5,430 and was written off because of difficulties encountered with technical equipment in the VTR mobile unit.

Film and Script Rights—\$1,877,346

The balance of prepaid film and script rights at March 31, 1963 increased by \$221,022 over the balance at March 31, 1962, as shown in the following summary:

	March 31		
	1963	1962	Increase
Prepaid film rights	\$1,704,902	\$1,513,524	\$191,378
Prepaid script rights	172,444	142,800	29,644
	<u>1,877,346</u>	<u>1,656,324</u>	<u>221,022</u>

In the Quebec region, prepaid film rights increased by \$65,000, with the result that the amount invested in film rights in that region was approximately \$1,363,000 or 80% of the total amount so invested at March 31, 1963, compared with \$1,298,000 or 85% of the total invested at the close of the preceding year. We were informed by the management that the reason for this large proportion of prepaid film rights in the Quebec region lies in the limited supply of French language films available in Canada and the consequent intense competition encountered by the Corporation in acquiring rights to these films. This condition has tended to increase the cost and has also made it necessary to acquire film rights in this region far in advance of the customary requirements of the Corporation.

In addition to the \$1,704,902 carried in prepaid film rights as amounts paid for films awaiting telecast, the Corporation at March 31, 1963 was committed under contract to purchase film rights to a value of \$5,274,000. Commitments at the same date last year amounted to \$5,237,000.

The Corporation wrote off as a charge to operations for the year a total of \$137,129 in determining the inventory values of prepaid film and script rights at the year-end. The comparable write-off for the previous year was \$165,185. Film rights written off represent, for the most part, single episodes of film contracts expired by the end of the year and not telecast because of unsuitability of program content, technical deficiencies or pre-emptions. One series, "Cesar" was purchased in 1957 for the Howdy Doody program which was cancelled before all the episodes were used. Episodes costing \$28,744 were included in the total write-off of film rights amounting to \$73,478. Script rights totalling \$63,651 were written off because the rights had expired or the scripts were considered unsuitable. The larger items comprising this total were:

Hospital series	38 scripts	\$15,200
Science Fiction	14 scripts	7,500
General Motors Presents	13 scripts	6,912
First Person	24 scripts	6,383
Other		27,656
		<u>63,651</u>

International Broadcasting Service Facilities—\$6,279,857

The Corporation, in addition to operating a national broadcasting service as required by section 29(1) of the Broadcasting Act, also operates the International Broadcasting Service on behalf of the Government of Canada. This service broadcasts Canadian programs to foreign countries in the languages of those countries. In accordance with the provisions of Order in Council P.C. 156/8855 of November 17, 1943, the Corporation carries in its books and shows on its balance sheet as a separate item the total cost of International Broadcasting Service facilities which amounted to \$6,279,857 at March 31, 1963

together with an offsetting amount as a liability to the Government of Canada. All operational and maintenance costs of the International Service are borne by the Government of Canada, being recovered by the Corporation under a separate parliamentary appropriation.

Capital Assets—\$33,797,724

The capital budget of the Corporation was approved by Order in Council P.C. 1962-1834 dated December 21, 1962. The Revised Estimates for the fiscal year ended March 31, 1963 tabled during the First Session of the Twenty-Sixth Parliament provided for a grant of \$6,600,000 for the capital requirements of the national broadcasting service. \$6,050,000 was received under the authority of parliamentary appropriations and \$550,000 under authority of a Governor General special warrant. With the capital expenditure during the year amounting to \$6,390,418, the unexpended balance of \$209,582 was recorded as a liability of the Corporation at the year-end and was refunded to the Receiver General on May 31, 1963.

Capital assets of the Corporation, recorded at cost, increased by \$5,959,581, from \$55,890,783 at March 31, 1962 to \$61,850,364 at March 31, 1963. This increase represents the cost of assets acquired of \$6,390,418 reduced by the write-off of improvements to properties held under lease and the cost of assets retired during the year of \$430,837. A book loss of \$48,983 was experienced on the disposal of capital assets which originally cost \$194,385 after giving effect to accumulated depreciation of \$120,391 and proceeds from sales of \$25,011. This loss is reflected in the Statement of Proprietor's Equity Account. Major capital additions during the year were:

Increase in construction in progress	\$ 1,884,765
Technical equipment	1,557,430
Transmitter	865,373
Buildings	535,284
Tower and antennae	486,012
Studio and office furnishings	248,271
Videotape equipment	165,011
Cars and trucks	125,718
Electrical equipment	115,751
Transmission lines	97,742
Land	91,808
Other	217,253
	<hr/>
	6,390,418

Most of the increase in construction in progress represents the costs incurred during the year on the consolidation of facilities in Toronto, Montreal and Ottawa. During the past four years a total of \$3,802,000 has been expended on these projects. As noted in our report last year, the estimated cost of this consolidation as set out in summary form in the Minutes of Proceedings of the Special Committee on Broadcasting (Appendix B of No. 27 of June 7, 1961, Page 804), amounted to \$73,636,000: \$46,650,000 during the five-year period ending March 31, 1966 and \$26,986,000 in subsequent years, to complete the projects. An estimated cost of \$69,335,000 to complete the consolidation had previously been approved by the Board of Directors on October 30, 1959 and submitted to the Minister of National Revenue and the Minister of Finance on November 6, 1959 in accordance with the provisions of section 35(2) of the Broadcasting Act. A note to the Financial Statements as at March 31, 1963 sets

out that present estimates of the cost of current plans indicate the cost of consolidation of facilities at these locations to be \$83,058,000. Subject to the provision of annual appropriations by Parliament for the purpose, approximately \$1,597,000 will be expended during the year ending March 31, 1964 and the remainder during the four years ending March 31, 1968.

In our report last year, we also referred to a physical inventory of all capital assets of the Corporation being made with a view to establishing and maintaining improved physical and accounting control over such assets. The physical count was completed during the year under review but pricing of these assets and comparison of physical count with accounting records remains to be completed. We were informed that this phase of the project would be finished during the current fiscal year.

Accounts Payable and Accrued Liabilities—\$6,618,475

The composition of this liability, compared with that at March 31, 1962, is as follows:

	March 31, 1963	1962	Increase (Decrease)
Trade accounts payable	\$ 4,471,717	\$ 3,990,124	\$ 481,593
Due to federal government departments	633,213	608,122	25,091
Pension plan contributions	415,605	496,870	(81,265)
Accrued overtime salaries	279,252	316,219	(36,967)
Contractors' security deposits and hold-backs	181,816	216,846	(35,030)
Due to provincial governments	37,870	37,961	(91)
Other items accrued and payable	599,002	475,862	123,140
	<u>6,618,475</u>	<u>6,142,004</u>	<u>476,471</u>

The management has certified as to the correctness of the above liability figure; that there were no contingent liabilities as at March 31, 1963; that contractual obligations and purchase commitments of the Corporation were not in excess of normal requirements; and that no contract of material importance had been entered into not in the ordinary course of business.

Proprietor's Equity Account—\$42,797,724

The equity of the Crown in the Canadian Broadcasting Corporation at March 31, 1963 amounted to \$42,797,724, comprising working capital of \$9,000,000 (\$6,000,000 as provided by section 39(1) of the Broadcasting Act and a further \$3,000,000 advanced for the purpose of increasing working capital by Vote 759, Appropriation Act No. 2, 1961) and \$33,797,724 net book value of fixed assets. This represents an increase of \$1,771,420 over the equity of \$41,026,304 at March 31, 1962. Details of this increase were as follows:

Grants for capital requirements, received
under authority of:

Parliamentary appropriations	\$6,050,000
Governor General special warrant	550,000
	<u>6,600,000</u>
Less: Amount not expended	<u>209,582</u>

\$6,390,418

Deduct:

Portion of net result of operations represented by depreciation	4,308,552	
Write-off of improvements to properties held under lease	261,463	
Net loss on retirement of capital assets	48,983	
		<hr/>
		4,618,998
		<hr/>
		1,771,420
		<hr/>

TRUSTEE PENSION PLAN

We have examined the accounts and financial statements of the CBC Pension Board of Trustees for the year ended March 31, 1963 pursuant to the provisions of the Trust Deed dated August 3, 1961 between the Canadian Broadcasting Corporation and the CBC Pension Board of Trustees and have reported thereon under date of June 21, 1963 to the CBC Pension Board of Trustees. In our report last year, we noted that no provision had been made in the Trust Deed for independent actuarial valuations to determine the soundness of the Pension Fund and recommended that the Trust Deed be amended to provide that the Trustees obtain such a valuation at least once every five years. The Trust Deed was so amended by resolution of the Board of Directors on February 6, 1963, with the first actuarial valuation to be obtained not later than March 31, 1965 and subsequent actuarial reports to be obtained at least once every five years.

BY-LAWS OF THE CORPORATION

At a meeting of the Board of Directors held June 22-24, 1959, By-Law No. 3 of the Corporation was amended to provide that a Chairman and Vice-Chairman of the Board be elected by the Board at each annual meeting and that the Chairman, or in his absence the Vice-Chairman, should preside at all meetings of the Board. At each subsequent annual meeting, Directors were duly elected to these offices and thereafter presided at meetings of the Board. Under date of May 16, 1963 the Deputy Attorney-General, in response to a request from the Secretary of State for an opinion as to the validity of By-Law No. 3, replied, in part, as follows:

It is therefore my opinion that section 3 of the by-laws is invalid in so far as it purports to authorize or require persons other than the President and Vice-President of the Corporation to preside over meetings of the Board of Directors of the Corporation.

The Board of Directors, taking cognizance of the opinion of the Deputy Attorney General, ratified and confirmed all by-laws, contracts, acts and proceedings of Directors of the Corporation since June 24, 1959 at a meeting held May 30, 31 and June 1, 1963.

SPECIAL SURVEY

In our report to the Board of Directors for the year ended March 31, 1960, we drew attention to various weaknesses in the system of internal control and made recommendations designed to correct these weaknesses. At the same time we suggested to the Board that a useful purpose might be served by having the Corporation's organizational structure in terms of its

present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the Audit Office.

It will be recalled that this particular report was tabled during hearings of the Special Committee on Broadcasting held in 1961 and was the subject of discussion in committee. In its report to the House of Commons on June 28, 1961 the Committee recommended that, following a review of the report of the Royal Commission on Government Organization, consideration be given by the Board of Directors of the Corporation to the advisability of commissioning management consultants to enquire further into the operation of the Corporation.

In Report 19, Volume 4, of its reports, released on April 17, 1963, the Royal Commission on Government Organization duly reported on the results of its review of the Canadian Broadcasting Corporation. The Commissioners stated that, while they had not undertaken the detailed investigation and appraisal which the Special Committee on Broadcasting may have contemplated, their report was proposing guidelines and criteria which, subject to government decisions on policy, should permit the Corporation to adjust its internal organization and operations to management and performance needs, with the aid of such advice, from within the government or elsewhere, as it may consider necessary.

Several of the Commissioners' comments, particularly those relating to financial administration, refer or deal with matters which had been the subject of critical comment in our 1960 report. However, as explained in our subsequent reports to the Board, we found that a number of these matters have since been remedied, particularly those relating to the position of the Chief Financial Officer, the formation of an effective internal auditing section and more effective stores control.

Notwithstanding this action on the part of the management in adopting our recommendations and suggestions, we felt that a useful purpose would be served if we reviewed the comments made by the Royal Commission on Government Organization in Report 19 having regard to its critical appraisal of the Corporation's operations, particularly in the area of internal financial control. We therefore discussed these with the Chairman of the Board, the President and the Chief Financial Officer in a meeting held on June 19, 1963 and received their assurance that appropriate remedial action would be taken after discussion of the points by these officers with the Board of Directors. The President also undertook to furnish us with a copy of any report which he may submit to the Director of the Bureau of Government Organization on the Commissioners' findings in Report 19.

* * * * *

We shall be glad to furnish you with any additional information you may wish in connection with our examination.

A. M. Henderson,
Auditor General of Canada.

AUDITOR GENERAL OF CANADA

Ottawa, June 3, 1963.

The Honourable J. W. Pickersgill,
The Secretary of State,
Ottawa.

Sir,

I have examined the accounts and financial statements of the Canadian Broadcasting Corporation for the year ended March 31, 1963. In compliance with the requirements of section 87 of the Financial Administration Act, I report that, in my opinion:

- (a) proper books of account have been kept by the Corporation;
- (b) the financial statements of the Corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the Corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of operations, give a true and fair view of the operations of the Corporation for the financial year; and
- (c) the transactions of the Corporation that have come under my notice have been within the powers of the Corporation under the Financial Administration Act and any other Act applicable to the Corporation.

Yours faithfully,

A. M. Henderson,
Auditor General of Canada.

CANADIAN BROADCASTING CORPORATION (Established by the Broadcasting Act)

BALANCE SHEET AS AT MARCH 31, 1963
(with comparative figures as at March 31, 1962)

Assets		LIABILITIES	
	1963	1963	1962
Current Assets:			
Cash	\$ 3,617,059	\$ 3,422,119	
Accounts receivable	3,064,761	3,962,152	
Due from Government of Canada in respect of expenditures incurred on behalf of the International Broadcasting Service	427,738	199,926	
Investment in Government of Canada Bonds, at cost (market value \$1,380,000)	1,445,000	1,445,000	
Engineering and production supplies, at cost ..	1,645,955	1,569,345	
Programs completed and in process of production	3,588,990	3,341,001	
Film and script rights	1,877,346	1,656,324	
Prepaid rent, insurance and other items	150,470	137,632	
Total Current Assets	16,417,319	15,733,499	
International Broadcasting Service Facilities, at cost (contra)			
	6,279,857	6,273,628	
Capital Assets, at cost: (Note 1)			
Land and buildings	\$ 24,659,699		
Technical equipment	32,931,218		
Furnishings and equipment	3,557,738		
Other	701,709		
	61,850,364		
Less: Accumulated depreciation ..	28,052,640		
	33,797,724	32,026,304	
	56,494,900	54,033,431	
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 6,618,475	\$ 6,142,004	
Due to Government of Canada: (Notes 2 and 3)			
Unexpended balance of grant received in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service	\$ 589,262		
			105,727
Total Current Liabilities	7,207,737	6,247,731	
Unexpended balance of grant received for the capital requirements of the national broadcasting service			
	209,582		
	798,844	425,768	
		591,495	
Total Current Liabilities			
	7,417,319	6,733,499	
International Broadcasting Service Facilities, provided by the Government of Canada (contra)			
	6,279,857	6,273,628	
Priorities' Equity Account, per statement attached			
	42,797,724	41,026,304	
	56,494,900	54,033,431	

CANADIAN BROADCASTING CORPORATION

BALANCE SHEET (Cont.)

The accompanying notes are an integral part of the financial statements.
Certified correct:

V. F. Davies
Comptroller

Approved on behalf of the Corporation:

J. A. Ouimet
President

R. L. Dunsmore
Director

C. B. Lumsden
Director

I have examined the above Balance Sheet and the related Statement
of Operations and have reported thereon under date of June 3, 1963 to
The Secretary of State.

A. M. Henderson
Auditor General of Canada

EXHIBIT II

CANADIAN BROADCASTING CORPORATION

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 1963
(with comparative figures for the year ended March 31, 1962)

	Programs without Advertising	Programs with Advertising	1963	1962
<i>Expense</i>				
Cost of Production and Distribution:				
Cost of programs.....	\$ 52,493,145	\$ 17,512,353	\$ 70,005,498	\$ 68,361,465
Network distribution.....	7,966,181	2,179,787	10,145,968	10,061,504
Station transmission.....	3,126,941	902,599	4,029,540	3,893,146
Payment to private stations.....	—	4,334,789	4,334,789	4,851,069
Commissions to agencies and networks...	—	3,872,204	3,872,204	4,620,207
	<u>63,586,267</u>	<u>28,801,732</u>	<u>92,887,999</u>	<u>91,787,391</u>
Emergency Broadcasting.....			282,540	13,182
Operational Supervision and Services:				
Program.....		2,984,504		3,276,299
Administrative.....		3,429,174		3,459,680
General.....		2,012,914		2,106,963
			8,426,592	8,842,942
Total Cost of Production and Distribution.....			101,097,131	100,643,515
Selling and General Administration:				
Selling expense.....		1,646,990		1,540,736
Engineering and development.....		1,080,411		943,128
Management and central services.....		4,541,350		4,483,775
			7,268,751	6,967,639
Total Expense for the year (Note 4).....			108,365,882	107,611,154
<i>Income</i>				
Advertising revenue (gross).....		30,846,627		32,910,118
Interest on investments.....		253,898		185,291
Miscellaneous.....		302,067		224,431
			31,402,592	33,319,840
<i>Parliamentary Grant</i>				
In respect of the net operating amount required to discharge the responsibilities of the national broadcasting service (Note 2).....			72,654,738	70,252,273
			104,057,330	103,572,113
Depreciation included in total expense for the year.....			4,308,552	4,039,041
			<u>108,365,882</u>	<u>107,611,154</u>

The accompanying notes are an integral part of the financial statements.

CANADIAN BROADCASTING CORPORATION

STATEMENT OF PROPRIETOR'S EQUITY ACCOUNT FOR THE YEAR ENDED MARCH 31, 1963

Balance at April 1, 1962.....	\$ 41,026,304
Parliamentary grant for the capital requirements of the national broadcasting service for the year ended March 31, 1963 (Note 3).....	6,390,411
	<hr/> 47,416,722
<i>Deduct:</i>	
Depreciation included in total expense for the year per statement of operations.....	\$ 4,308,552
Write-off of improvements to properties held under lease.....	261,463
Net loss on retirement of capital assets.....	48,983
	<hr/> 4,618,998
Balance at March 31, 1963.....	<hr/> 42,797,724

The accompanying notes are an integral part of the financial statements.

CANADIAN BROADCASTING CORPORATION

Notes to Financial Statements

1. Capital assets in the amount of \$61,850,364 include the sum of \$3,802,000 expended during the last four years in connection with the planned consolidation of facilities in Toronto, Montreal and Ottawa. Present estimates of the cost of current plans indicate the cost of consolidation of facilities at these locations to be \$83,058,000, of which, subject to the provision by Parliament of annual appropriations for the purpose, approximately \$1,597,000 will be expended during the year ending March 31, 1964 and \$77,592,000 during the four years ending March 31, 1968.

2. (a) The Revised Estimates for the fiscal year ended March 31, 1963 tabled during the First Session of the Twenty-fifth Parliament provided for a grant of \$73,994,000 in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service. Since the net operating amount actually required was \$72,654,738, an amount of \$1,339,262 remaining available was not expended.

(b) The sum of \$73,244,000 was received, \$61,661,000 under authority of parliamentary appropriations and \$11,583,000 under authority of Governor General special warrants. Since the net operating amount actually required totalled \$72,654,738, an unexpended balance of \$589,262 was refundable to the Government of Canada at March 31, 1963. The Corporation remitted this sum to the Receiver General on May 31, 1963.

3. The Revised Estimates also provided for a grant of \$6,600,000 for the capital requirements of the national broadcasting service; \$6,050,000 was received under the authority of parliamentary appropriations and \$550,000 under authority of a Governor General special warrant. Since the capital requirements actually were \$6,390,418, an unexpended balance of \$209,582 was refundable to the Government of Canada at the year-end. The Corporation remitted this sum to the Receiver General on May 31, 1963.

4. Included in the total expense for the year ended March 31, 1963 are \$195,600 for executive officers' remuneration, \$28,400 for directors' honoraria and \$16,187 for legal expenses.

APPENDIX 2

(Returns tabled by Mr. Ouimet to inquiries by Mr. Francis)

PROGRAMS NOT AVAILABLE FOR ADVERTISING

A list of the types of programs not available for advertising under present policy follows:

- (a) News programs
- (b) Civic affairs programs
- (c) Public affairs forums, discussions or commentaries
- (d) Talks or interview programs in which the full expression of controversial opinions is sought
- (e) Programs dealing with consumer information or advice
- (f) Farm and fisheries programs
- (g) Documentaries and dramatized documentaries, dealing with social, political, economic or human relations questions in which contentious views or opinions are explored
- (h) Religious programs
- (i) Formal educational programs
- (j) Weather and tide forecasts
- (k) Children's programs, the purpose of which is predominantly educational.

CBC COMMERCIAL ACCEPTANCE POLICY

SUBJECT: Unacceptable Accounts

Advertising for the following products and services is not acceptable on CBC networks or CBC-owned stations:

1. Laxatives, cathartics and diuretics, including foods and beverages when advertised as such.
2. Sleeping tablets.
3. Hair and scalp treatments advertised to grow hair.
4. Personal hygiene products, including Bathroom Tissue.
5. Program Promotional Announcements.
6. Corn Removers (Unacceptable in TV only).
7. Denture cleaners or preparations designed to keep dentures in place.
8. Depilatories.
9. Toilet Bowl Cleansers, Septic Tank cleaners and Outdoor Toilet Sanitizers.
10. Bathroom Deodorizers.
11. Men's and Women's Underwear.
12. Foundation Garments . . . including Girdles and Brassieres.
13. Rest Homes.

14. Undertaking parlours, funeral homes, cemeteries and related products or services.

15. Social Clubs.

16. Memberships in Associations whose goods or services are provided to their members *indirectly* (i.e., through a third party) and not by the Association itself.

17. Stamp Promotion Plans.

18. Cottage sites in areas for which development plans have not been registered with the appropriate authorities.

19. Help Wanted Advertising.

20. Mail Order Advertising . . . except for companies who are well-established in the mail order business, whose business methods and integrity are highly regarded by the public at large and the acceptance of whose business has been specifically approved by the Head Office Sales Policy Department.

21. Health Studios.

22. Alcoholic beverages.

NOTE: The sponsorship of programs by Breweries and Wineries is permissible in those provinces in which it is legal to advertise such products. Such sponsorship must be in accordance with BBG Regulations.

23. Adult-type cosmetics for children (such as make-up items, perfumes, nail polish, nail polish remover, scented hand lotions, etc.)

24. Professional services, such as medical, dental, legal services, osteopathy, chiropractic, etc.

25. Any other product or form of advertisting prohibited under the regulations of the BBG.

(end)

Issued by Sales Policy and Planning, Ottawa . . . July 1, 1962.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

Public Accounts, Volumes I, II and III (1963)

Reports of the Auditor General relating to the
Canadian Broadcasting Corporation

TUESDAY, JULY 7, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and

From the Canadian Broadcasting Corporation:

Messrs. J. A. Ouimet, President and V. F. Davies, Comptroller.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif
and Messrs.

Basford,	Grégoire,	Ricard,
Berger,	Gray,	Rinfret,
Cameron (<i>High Park</i>),	Hales,	Rock,
Cardiff,	Harkness,	Rondeau,
Chaplin,	Lessard (<i>Saint-Henri</i>),	Ryan,
Choquette,	Loiselle,	Scott,
Côté (<i>Chicoutimi</i>),	Mandziuk,	Smith,
Crouse,	McLean (<i>Charlotte</i>),	Southam,
Drouin,	McMillan,	Stefanson,
Dubé,	McNulty,	Stewart,
Fane,	Muir (<i>Lisgar</i>),	Tucker,
Fisher,	Nowlan,	Valade,
Forbes,	O'Keefe,	Wahn,
Francis,	Pigeon,	Whelan—50.
Frenette,	Pilon,	
Gendron,	*Prittie,	
Grafftey,	Regan,	

M. Slack,
Clerk of the Committee.

*Replaced Mr. Winch on Monday, July 6.

ORDER OF REFERENCE

HOUSE OF COMMONS,
MONDAY, July 6, 1964.

Ordered,—That the name of Mr. Prittie be substituted for that of Mr. Winch on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, July 7, 1964.
(16)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Fisher, Forbes, Francis, Gray, Grégoire, Hales, Harkness, Lessard (*Saint-Henri*), Loiselle, McMillan, O'Keefe, Pigeon, Prittie, Rinfret, Rondeau, Ryan, Southam, Stewart, Tardif (21).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; *From the Canadian Broadcasting Corporation:* Messrs. J. A. Ouimet, President; V. F. Davies, Comptroller; R. C. Fraser, Vice-President, Corporate Affairs and A. Watkiss, Assistant Director, Accounting; and Messrs. Stokes and Laroche of the Auditor General's office.

The Committee resumed consideration of the Auditor General's 1963 long form report to the Canadian Broadcasting Corporation.

Mr. Ouimet tabled a return to an inquiry by Mr. Grégoire dealing with "Analysis of Pay Roll", and was questioned thereon and on related matters. The Committee agreed that this return be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 1*).

Messrs. Henderson, Ouimet and Davies were further examined, particularly on budget matters.

The examination of the witnesses still continuing, at 11.25 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(17)

The Committee resumed at 3.40 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Drouin, Dubé, Fisher, Forbes, Francis, Hales, Harkness, Loiselle, McMillan, O'Keefe, Prittie, Rinfret, Rondeau, Ryan, Southam, Stewart (20).

In attendance: (same as at morning sitting).

The Committee resumed the examination of Messrs. Ouimet, Henderson and Davies.

Mr. Ouimet tabled two returns to inquiries by members dealing with "Operating costs of radio and television services in English and French languages", and "Approximate costs of a typical week's programs in the fall schedule". The Committee agreed that these returns be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 2*).

Mr. Ouimet made a brief statement relating to the request that the C.B.C. provide more information in its annual report.

Mr. Henderson then reviewed the sections of his long form report dealing with the balance sheet and related matters and was questioned thereon.

Messrs. Ouimet and Davies were also examined and supplied additional information.

The examination of the witnesses still continuing, at 5.20 p.m., the Committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(18)

The Committee resumed at 8.10 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Fane, Fisher, Forbes, Francis, Gendron, Grégoire, Hales, Harkness, Loisele, McMillan, Pigeon, Pilon, Prittie, Rinfret, Rondeau, Ryan, Southam, Tardif (20).

In attendance: (same as at previous sittings this day).

The Committee resumed the examination of Messrs. Henderson, Ouimet and Davies on the 1963 long form report of the Auditor General.

Mr. Henderson reviewed the section, "Capital Assets". Mr. Ouimet then made a statement relating to consolidation projects in Montreal and Toronto, and was questioned thereon together with Mr. Henderson and Mr. Davies.

Mr. Henderson reviewed the section "Special Survey", and then Mr. Ouimet commented on the Auditor General's observations. Mr. Ouimet referred to the study group looking into the organization of the C.B.C. and also commented on the advisory committee on broadcasting.

Messrs. Henderson, Ouimet and Davies were further examined.

The examination of the witnesses being concluded, the Chairman thanked Mr. Ouimet and his officials for their assistance. Mr. Ouimet, in turn, thanked the Committee.

At 10.30 p.m., the Committee adjourned until 9.30 a.m. on Thursday, July 9, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, July 7, 1964.

(Text)

The CHAIRMAN: Gentlemen, we have a quorum. Are you all plugged in and wired for sound? I ask you this question because we are breaking new ground today. We are using mechanical devices which are being applied to committee hearings in the hope that this not only will expedite our deliberations but be of assistance to those members who wish to put questions in French.

As usual, we have with us the reporters taking down the questions and answers in English. However, because we have this machinery available there will be a recording which will be effective not only for the English but also for the French. In this way there will be a verbatim French report following the meetings. This is the first time that this system has been used in this committee and I hope that it will prove highly acceptable to all members. Having in mind the very considerable role which, in my opinion, this device can and will be playing, I hope it will prove to be an excellent method.

Mr. Grégoire, do you wish to deal with this particular point?

Mr. GRÉGOIRE: No.

The CHAIRMAN: We have some material to file first.

At the last meeting the C.B.C. agreed to file certain information in response to questions asked. Mr. Ouimet has handed me this information and he will indicate to the committee the detail of the material which is available.

Mr. J. ALPHONSE OUMET (*President, Canadian Broadcasting Corporation*): I have ready now, Mr. Chairman, an answer to a question of Mr. Grégoire in respect of the analyses of the payroll in breaking down radio and television programming, technical, design, staging and so on.

Mr. FISHER: Mr. Chairman, have you extra copies of that information. The reason I put the question is that I would like to see it. Most of my questioning today will be based on this field.

The CHAIRMAN: We have just four copies of this information, which will be filed and marked as exhibits.

Mr. GRÉGOIRE: Could we have a copy?

The CHAIRMAN: Is it agreed that this information be printed as an appendix to today's proceedings?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Then this information will be tabled and will form part of the proceedings. If members wish for the purpose of their questioning to examine this information they can request a messenger to come up to the table and obtain this. As I said, there are only the four copies available.

Is it on this point you wish to speak, Mr. Grégoire?

Mr. GRÉGOIRE: No, Mr. Chairman. I wanted to request a copy of that information.

Mr. PRITTIE: Mr. Chairman, on that point I had put a question on the order paper, requesting the operating costs of the radio networks and the amount of money received from the sale of advertising time on these networks. Would that information be contained in the material which is being filed this morning?

The CHAIRMAN: No, I do not think so. Perhaps you should address your questions to Mr. Ouimet.

Mr. Ouimet, Mr. Prittie has said that he has filed a question on the order paper and is asking if the information which he has requested will be contained in the material you have filed.

If not, Mr. Prittie, you could ask the question later.

Mr. OUMET: Certainly, this will be answered, in great part, in the information we are preparing for an answer to a question from Mr. Fisher. This should be ready sometime later today.

The CHAIRMAN: If the information proves not sufficient you can supplement it by subsequent questions.

Is there some further material you are filing, Mr. Ouimet?

Mr. OUMET: No. For the moment that is all I have.

Mr. GRÉGOIRE: May we ask some questions on this?

(Translation)

To get some details, to get some explanations on the details we have just been given, may we ask some questions in this connection now?

(Text)

The CHAIRMAN: Mr. Grégoire, we are up to page 9 and I had hoped we would start with the next item, which is the balance sheet. But, you certainly can ask questions in respect of the material which has been filed, because it was filed in response to questions which were properly up for discussion.

(Translation)

Mr. GRÉGOIRE: Moreover, Mr. Chairman, I do not believe we had necessarily finished the study up to page 9 prior to last Thursday; when we left we were still dealing with the matter preceding page 9 of the report.

(Text)

The CHAIRMAN: Yes. We had not brought it to a legal close. I hoped it would be finished, but it is still open for questioning at this time.

(Translation)

Mr. GRÉGOIRE: Mr. Ouimet, when you speak of programme production, what classes of employees does that include?

Mr. OUMET: The production of television programmes includes the producers, the script-assistants, the co-ordinators, the technical producers, the stage directors, all the people on the stage.

Mr. GRÉGOIRE: The technical production?

Mr. OUMET: Technical production also includes the people around the stage, the cameramen, sound technicians, lighting technicians and all the others; there are several other classes.

Mr. GRÉGOIRE: The scenic and staging services?

Mr. OUMET: The scenic and staging services comprise the designers, decorators, painters, carpenters, make-up people, costumes and the graphic arts.

Mr. GRÉGOIRE: Mr. Ouimet, in asking that question, that was not quite the type of detail I expected, I would like to know how many employees there are and what salaries are paid in the production field alone, and secondly in the administrative field. But it is not broken down in a way that would enable us to get that information.

Mr. OUMET: If you want to know how much was paid in salaries for production as compared with the salaries paid, let us say, for management and general services, you have the figures at the bottom here, you have television,

programme production, for radio and television. Then you have the integrated services that are common to both and which can not be split up. Immediately after that there is supervision, sales, management, technical services for construction. The number of auxiliary employees is not very large. So that can be calculated, if you want to.

Mr. GRÉGOIRE: Do you know how many employees there are on the administrative staff alone at the C.B.C.

Mr. OUMET: It is extremely difficult to give you an accurate figure as it is a matter of definition. What does the administrative staff comprise exactly since there is programme administration, technical administration and general administration. So one would have to be a lot more specific. We have figures for all the classes of personnel.

Mr. GRÉGOIRE: Taken as a whole, could you tell us how many employees there are at the C.B.C. for radio and television, for the English and French networks?

Mr. OUMET: At the present time, about 8,000.

Mr. GRÉGOIRE: Eight thousand employees in all.

Mr. OUMET: Perhaps slightly less, but with the opening of the St. John's (Newfoundland), Quebec and other stations there will soon be 8,000.

Mr. GRÉGOIRE: Mr. Ouimet, I would also like to know, if possible, how much the C.B.C. spends, during any normal week of the year, in the five main areas of classification you may have?

Mr. OUMET: Yes, I hope to have that information for you this afternoon.

Mr. GRÉGOIRE: In that connection it is . . .

(Text)

The CHAIRMAN: Mr. Grégoire, have you completed your questions? Mr. Pigeon is next.

(Translation)

Mr. PIGEON: No, no, Mr. Chairman, I do not want to deal only with the table, with the payroll analysis. I want to ask some general questions but in any case I do not want to deprive Mr. Fisher of his turn.

Mr. GRÉGOIRE: Mr. Chairman, I would like to mention that—I am not going to ask any more questions in that connection, but as far as the information I wanted to get is concerned this is far from satisfactory. It is not known, and I think I indicated the other night what we wanted to know, that is, the amount spent—we have it for the performers—solely on technical production and thirdly on administration. I think we are far from having obtained that information at the present time.

Mr. OUMET: We can tell you off hand that the total is \$44,000,000. That is the total of the salary estimates. For supervision, sales, management, technical services, auxiliary employees—those are the five last groups—you have \$5,380,000, \$1,169,000, \$3,001,000, \$1,837,000 and \$1,033,000. So, very rapidly, that adds up to 9, 10, 11 million dollars. You have approximately 11 million dollars of the 44 millions.

Mr. GRÉGOIRE: Then, one question in that connection, Mr. Ouimet, with regard to programme production does that also include the producers' secretaries?

Mr. OUMET: Yes, in programme production that includes script-assistants, they are not . . .

Mr. GRÉGOIRE: Also the producers' secretaries?

Mr. OUMET: The producers' secretaries, I do not think we have many of them. I think they are script-assistants.

Mr. GRÉGOIRE: At least in administration they are . . .

Mr. OUMET: No, no they are not in administration. They are employees who work on producing programmes in the studio and play a very active part in programme production.

Mr. GRÉGOIRE: Do those producers have secretaries?

Mr. OUMET: They certainly have some office work to do and for that, I cannot give you a precise answer because I do not know it myself. What I am giving you are the expenses we charge to programme production. It is all for programme production. If a secretary has to type a text it is obviously for the performers and for the programmes.

Mr. GRÉGOIRE: But that is included in production?

Mr. OUMET: I think it is included in production but I have not prepared . . .

Mr. GRÉGOIRE: Even the office work?

Mr. OUMET: No, not all the office work, because farther on we have subsidiary services for programme production, joint services, such as the record library for example, and several other services, the library, but they all serve programme production.

(Text)

The CHAIRMAN: Mr. Pigeon, I thought you agreed to waive in favour of Mr. Fisher?

Mr. FISHER: I have a question to ask Mr. Henderson.

The CHAIRMAN: May I make this suggestion? Our time is limited. I have been trying to do without supplementaries, letting it go round to each member who wants to ask questions, in the hope that he could initiate, develop, and conclude a reasonable line of examination, but if you would restrict yourselves to one area at a time, then your turn will come again and in this way an opportunity will be given to each member. As I had Mr. Pigeon down, I would ask him to ask his questions first and Mr. Fisher will follow.

(Translation)

Mr. PIGEON: Mr. Chairman, I know you are limited in your activities on account of the budget Parliament makes available to you, I would like to ask you this. How much would it cost the C.B.C. to extend their network throughout Canada, that is where there are fairly large French minorities?

Mr. OUMET: You mean, to extend the French network for example to Edmonton and Vancouver, because in the West we already have a station at Winnipeg-Saint Boniface and there are also large minorities in Saskatchewan. Now, from the economic standpoint, I do not believe it would be possible to extend the micro-wave network to carry French programmes throughout the country, even in Winnipeg we are not linked up by micro-wave. The programmes are transmitted by tape-recordings. So if we were to do the same thing for stations that might be built at Edmonton or Vancouver it would cost a few thousand dollars a year to operate, and a few millions for construction and fixed assets.

Mr. PIGEON: Now, Mr. Oumet, in order to serve the English minority where it is not yet served in certain parts of Quebec, and the French minority in other parts of Canada, would it be possible, for example, in a day or two, to show us the places on the map, the places where it would be possible to set up French radio stations, French television stations both English and French, and the approximate cost?

Mr. OUMET: As you are aware there is no limit with regard to extending either the English or the French networks. They are still a lot of places that are not served in one language or the other, and we have several projects under study. We have at least a hundred projects under study but they are projects we have not decided on, and I would hesitate to provide you with figures in that connection. Each year we allocated part of our budget to extending the service, we try to do it fairly for the two languages. If it were to be done all at once I would first like to know where we should stop. For instance there are localities who want television or radio and where the population is only two or three hundred, so, the per capita cost in that case is very high. We cannot go that far. For the time being, we allocate approximately two or three dollars, sometimes a little more, per capita. We have gone up to four, five or even six dollars per capita.

Mr. PIGEON: In another connection, I would like to ask you this Mr. Ouimet. Would it be possible to have a table by province to know the overall cost of C.B.C. offices. For instance here in Ottawa you do not have a large enough building with a sufficient number of offices to concentrate all your offices in the same building. In Montreal and other large centres in Canada would it be possible, for instance the . . .

(Text)

The CHAIRMAN: Could I interrupt here. There is a special section under which we will deal with the building program—that is, the new buildings and so on—and I think it would make for a more orderly discussion if you would wait until we reach that section. We will be going into this at that time and then you will have an opportunity to put questions in this respect.

(Translation)

Mr. PIGEON: Mr. Ouimet, I will end by asking you this question, what plans have you this year to extend the French network in Canada?

(Text)

The CHAIRMAN: Mr. Pigeon, I am sorry to interrupt you again.

As a public accounts committee we are dealing with the report of the C.B.C. for the fiscal years ended March 31, 1962 and March 31, 1963. While we have had some general discussions in respect of the opinions of officials from the C.B.C. and members of this committee, if we do get into these matters we will be getting into the financial statement for the current year. This will be a matter for the public accounts committee next year. They will deal with this. It is my feeling that we will be departing from our terms of reference if we continue on in this way.

(Translation)

Mr. PIGEON: So, for the time being Mr. Chairman, I would like to thank Mr. Ouimet for his co-operation.

(Text)

Mr. FISHER: Mr. Chairman, I wanted to ask Mr. Henderson questions in respect of the subject we were on the other day. My reason for putting these questions is I am dissatisfied about certain things. I do not feel that the members of parliament, which gave the C.B.C. its mandate, is able to obtain adequate information from these C.B.C. reports to parliament. These reports do not give us a really clear picture of what is going on and developing so far as its spending is concerned.

Mr. Henderson, I wanted to ask you a number of questions to determine whether you know from the work that your organization does that this information is available or could be fairly readily available from the records of the C.B.C., as you have examined them.

My first question relates to page 4 of the last long report where you have this breakdown of, what I presume, is the budget which is brought before treasury board.

Is the procedure of treasury board flexible enough to permit the C.B.C. to bring in a budget analysis including many more breakdowns than given here?

Mr. A. M. HENDERSON (*Auditor General of Canada*): The budget figures you see at page 4 are those submitted by the corporation to the treasury board in support of the corporation's request for the net operating amount it requires for the forthcoming fiscal year.

Now, the breakdown you see on page 4 generally is conceded to be the broad areas of its operations, the type of expenses it encounters, and you will see that the major portion is salary and wages.

Behind these figures the corporation naturally has full particulars in respect of their buildup and is in a position to explain and does, in fact, explain to treasury board the reasons for the increases compared with the previous year, and such other facts as the corporation may want to introduce in justification of its demands. Treasury board generally poses a lot of questions to the corporation's representatives, the president and the senior officials, at the meeting with the treasury board, which is usually when the final amount is approved.

Does that answer your question, Mr. Fisher?

Mr. FISHER: But, who determines the form? Is it the treasury board? Has the treasury board a set of rules, or has this become a tradition?

Mr. HENDERSON: The form which you see on page 4 is one which was set up by treasury board in conjunction with the C.B.C. some four or five years ago, I think. Is that not correct, Mr. Ouimet?

Mr. OUMET: That is correct.

Mr. HENDERSON: I thought it was a mutually agreed upon form designed to bring out the major areas of spending.

Mr. FISHER: But the kind of thing it does not do is give you any kind of indication in that set-up. I am assuming that the major job of the C.B.C. is programming; this tells you very little about expenditures in respect of that subject.

Mr. HENDERSON: That is correct. They are really what you would describe as the objects of expenditure. It might be that this is a question which Mr. Ouimet should answer. I say this because, obviously in presenting a budget such as this to treasury board the president would go on to give the members of the Board a quick rundown and a rather more broad picture.

Mr. FISHER: Well, let me mention one thing. We have been here a couple of days now and there have been quite a number of questions put on this basic business of spending on English and French networks. Apparently, there is nothing which I can see in that budget outline which would indicate the percentage of spending or the relationship or ratio in respect of English and French.

Mr. HENDERSON: I would question whether that is necessary at this stage. Obviously, the corporation knows how much it is going to spend on its networks and stations. It owns a number of stations. It keeps its accounts in a manner which permits it to know what its profits and losses are—I hesitate to use those words—perhaps I should say what its expenditures are in these various areas. The corporation's own accounting department prepares a good

breakdown along the standard lines which are employed by the large broadcasting corporations, at least on this side of the water. But, the extent to which they are prepared to disclose the individual expenditures by stations or by networks is the prerogative, as I see it, of the president; it is not a question for me to answer.

Mr. FISHER: But, in the major area, where we have a rather fundamental discussion going on in the country, where we have the C.B.C. taking the lead in developing its mandate in respect of this question of the extension of services, language, and so on, it seems to me that the most relevant of all questions is what is the percentage of the budget that is going to go into the French network and what is the percentage of the budget that will be applied to the English?

Mr. HENDERSON: The percentage of the budget that would go into French and the percentage which would go into English, the ratios as between Newfoundland and British Columbia and so forth, are matters that I feel the president should answer, and should not be directed to me.

Mr. FISHER: The question I am asking you, Mr. Henderson, is this. Is this information available from your knowledge of the analysis and the accounting system which is used? Could these figures be provided?

Mr. HENDERSON: Yes. To my knowledge, it is available.

Mr. FISHER: Now, the next thing I wanted to ask you is whether this would be available. One of the problems that I encounter in looking at what the C.B.C. is doing in respect of its spending is that it brings in both the French programming and the English programming, and then the amount of foreign programming, particularly American, which is purchased and brought in. I am not hesitant to express my concern; I think the French Canadian part of the C.B.C. is doing a much better job than the English counterpart of the C.B.C. in developing Canadian programming. This is one of the things I want to find out. I cannot see why there could not be included in the accounting the amount of spending that the C.B.C. is doing in respect of importing American programs. Is that information available?

Mr. HENDERSON: Information of that character, of course, is available from the books of the corporation, but what we are examining here are the year end accounts of a corporation which operates in this country from coast to coast. It is a Canadian owned crown corporation, which has its balance sheet and its statement of operations for the corporation as a whole. Such breakdowns as you are suggesting do not have a place on this type of statement any more than they would on a similar statement for the Eldorado Mining and Refining Company or the Canadian Overseas Telecommunications Corporation, or any private corporation. This information would be available from the books of the corporation but the extent to which it is to be produced is, in my opinion, the prerogative of the president.

Mr. FISHER: I am not asking you for the information; I just want to know whether the information is available. For example, we have a film figure here which, I am sure, would include a lot of the American programs. Could the budget which is brought before treasury board not include an estimate of what is going to be spent on purchasing American programming for the French and English networks?

Mr. HENDERSON: Yes, behind that figure there would be a breakdown in greater detail than you are requiring now. This figure represents their estimate of what they require 18 months ahead of time.

Mr. FISHER: To your knowledge, would it be possible to get figures that would indicate the amount of program spending based on what are original programs in the English network and what are original programs on the French network?

Mr. HENDERSON: You have the total figures for Canada as a whole appearing on exhibit 2, the statement of operations; you have the cost of production and distribution showing the cost of programs. The amount that is sold with advertising is \$17½ million and under "programs without advertising",—the figure we discussed the other day—which includes the number available for sale but not sold, is \$52½ million for cost of programs.

Mr. FISHER: But that does not give you any real look at what is being originated in Canada by the French and English networks and what is being brought in or produced from other sources.

Mr. HENDERSON: That is correct. These are total figures appearing on the company's statement of operations for the year. There are no breakdowns. If I understand you correctly, you want this additional information. If so, I would suggest that your question should be more properly addressed to the president.

Mr. FISHER: The main thing I want to find out is could all this, to your knowledge, be provided from the kind of material that the C.B.C. has in its accounts?

Mr. HENDERSON: I would expect it could be because the corporation, if I may say so, maintains a good set of accounts.

Mr. FISHER: In respect of the figures given to us this morning on the analysis of payroll we have a nice breakdown; it shows approximately \$25 million of the payroll appears to go into what you might call roughly administrative, and \$19 million into what you might call production. This is for the payroll. What I am wondering about is this. Could this be taken farther, using these same headings, and could you get, for example, the figures that would include talent fees?

Mr. HENDERSON: Well, I do not believe that talent fees are in this figure. Are they?

Mr. FISHER: No. I am sure they cannot be.

Mr. OUMET: No. They would be in a different budget. This is salaries and wages.

Mr. FISHER: But the point in connection with this breakdown which I am trying to get at is that I think it should be possible to fill in other figures under these headings so that we could actually get some idea of the total and the changes from year to year in the spending which the C.B.C. is doing under the production headings, and then under the administration headings and so on.

Mr. HENDERSON: Yes, I would think so.

Mr. FISHER: When the C.N.R. and T.C.A. appeared before us over the last couple of years both went to great length in order to put all their costs under sort of sections in order that we could determine what these costs were. For instance, they gave the figures in respect of a flight from Toronto to the Lakehead.

Mr. HENDERSON: Yes.

Mr. FISHER: And even announced the president's and vice president's salaries. They gave the whole thing. I would assume the C.B.C. is in exactly the same position to provide such cost figures. Is that a correct assumption on my part?

Mr. HENDERSON: Yes. It would be in a similar position except that you have a rather more complex problem in the case of broadcasting than in the case of the two transportation systems you have mentioned.

If you look at exhibit 2 you will see that the cost of production and

distribution of the programs themselves total \$92,387,000 for the year ended March 31, 1963, to which have to be added the operational supervision and services of \$8.4 million, bringing it up to \$101 million, and then, the remaining overhead, including the president's salary and all the rest, is included in the final figure of \$7.2 million, bringing the final amount of the expenses of the corporation for the year to \$108.3 million. And, what you are saying is would it be possible for them to take that \$15 million and spread it all back directly against the costs of production and distribution. That would be quite possible but it would entail elaborate refinements in the costing techniques and, in the case of this corporation, I am of the opinion it would be less informative than the picture you now have because the selling and general administrative figure generally reflects a breakdown of what the headquarters expenses amount to which otherwise would be lost.

The present costs at the top of this statement really are the direct costs plus what you would normally call direct labour rather than indirect labour and overhead. The total cost of running the corporation for this year is \$108.3 million, and rather than see that broken down into five or six figures and limited to that, I would suggest to you this is not only much easier to produce but more informative. Do you follow my point in this connection?

Mr. FISHER: Yes.

Mr. HENDERSON: I cannot quite see what you would gain by taking all the minute expenses right up to the president's salary and prorating and spreading them back. If you did you would be likely to complicate your expense control considerably.

Mr. FISHER: The question which is involved here is the apprehension some of us have about where the C.B.C. is spending its money. I will start with what I think is a good argument for a parliamentarian being critical of the C.B.C. I am referring to the assumption that they probably are spending too much for administrative and not enough on programming. The kind of information I would like to get is eventually if you get it down to, say, a major program series, such as N.H.L. hockey, Bonanza or the Ed Sullivan show, you could see in the costs not only the return the corporation gets but how much is going for all the services. It would seem to me you could put questions and would have a more realistic appreciation of how important these shows are to the C.B.C. and how well they are doing in recouping their expenditures. I suppose they are making a tidy profit on hockey. This would be good to know. But, you see, it is so easy to be baffled by the approach which Mr. Ouimet brought in the other day in respect of chamber music. How can you really get at the commercial quality or the commercial standards which the C.B.C. has if you do not know more information from a cost point of view about the whole variety of its programs?

Mr. HENDERSON: The profits that they may make on some of the programs, such as hockey are of course, offset here against the losses they take on the others. As I said the other day, the programs with advertising—and hockey carries that—costs \$28.8 million, and the advertising revenue was \$30.8 million. That leaves only a \$2 million difference, but that is more than offset by the \$15 million worth of overhead shown in the two expense items I have referred to which is not spread. The only way you can get at what you want is to have a complete or summarized listing in some form of the costs of the individual types of programs. The extent to which Mr. Ouimet would feel that should be disclosed, having regard to the fact that he operates in a competitive market, I do not know. You have to ask him.

Mr. FISHER: But, he does not operate in a competitive market, except in a very minor way. He has made the point repeatedly that the C.B.C. is unique and that it is not really like any other organization.

Last week when we tried to get into the commercial aspects he made the point the commercial policy of the C.B.C. always had to be secondary to its mandate.

Mr. HENDERSON: I am using the words "competitive market" in terms of the fact he has to compete for some of these national events. He has to live and work alongside private enterprise engaged in these fields and, therefore, he should have the prerogative I think, of saying the extent to which he wants to disclose his figures.

Mr. FISHER: But, here is the point I want to put to you. We have a national broadcasting service in Canada, namely C.T.V., of which the private stations are part. Now, they are in the programming field, and so is the C.B.C. But, the C.B.C. claims that it has a special responsibility which is generally interpreted as being wider than the C.T.V. stations; yet, if we take Sunday night as an example, the programming from about 6 o'clock through until 10 o'clock both on the C.T.V. and C.B.C. is catch as catch can. It is the same kind of stuff largely, so in this sense the C.B.C. is competing head on. But, when you want to examine the C.B.C. and see how well it is doing, out comes the mandate, and they say they have a greater responsibility.

The point I want to get at and to put to you is if the C.B.C. is in commercial television as strongly as it is and if it dominates its major viewing hours as strongly as it does then we should be entitled and need to know in order to judge its performances more about the costs in that area.

Mr. HENDERSON: As I said earlier, I do not think disclosure of costs of this type have a place in the overall annual financial statements of the corporation. They must be total figures for the operations of the corporation as a whole, and I do not think you would disagree with that. However, this further breakdown which you are seeking is something which the president and the management conceivably might see fit, perhaps in view of a discussion like this, to include in some form or another in the corporation's own annual report; in other words, they could show some tables and a few graphs which would possibly provide answers to some of these questions. But, that is a matter for them to take under advisement and to study, and to the extent to which they might be prepared to do that I cannot say. But, that is what you usually find in corporations operating like this.

Mr. FISHER: But, I wanted to hammer home to my colleagues in this committee this fact; if you examine a C.N.R. report you will note that the breakdowns give figures which are not available to us in respect of the C.B.C. and you get a much broader picture of the costs as well. My point is that the C.B.C. is now into that kind of major area of spending, and I suggest that as this is an organization that rests on parliament this also is where its responsibilities are. I think we should be getting more information of that kind than we are getting at the present time.

Mr. HENDERSON: Then, if that is the feeling of the committee I think it is a perfectly proper question to address to the president. You could inquire of him as to the feasibility of including graphs and tables and more information than presently is provided in their annual report because that would be the proper place for this kind of information, just as you find it in the C.N.R. report and the reports of private corporations.

Mr. FISHER: I have no more questions. Thank you.

(Translation)

Mr. RONDEAU: Mr. Ouimet, a while ago when we were dealing with this subject Mr. Pigeon was called to order. It would perhaps be better to wait a while before asking questions similar to those asked by Mr. Pigeon. So I would prefer to wait until we revert to the matter, to revert to these questions.

(Text)

The CHAIRMAN: What was your question?

Mr. RONDEAU: My question has to do with television services and information. I was informed that we would be coming back to this subject today.

The CHAIRMAN: Mr. Rondeau, we will be coming to that subject later on. We will deal with it in its entirety, if we have the time. We have Mr. Ouimet only for this afternoon and this evening. We are going to deal in its entirety with the balance of the 1963 financial long form report.

The matter in which Mr. Pigeon was interested, namely the building program, will come up later on in this report.

The other aspect to which Mr. Pigeon referred was the C.B.C. policy at this time in respect of extensions into other areas, either French or English, which is outside of our terms of reference. We are limited to dealing with the 1962 and 1963 reports. That is why questions in this respect were not permitted at that time.

Would you proceed, Mr. Hales.

Mr. HALES: Mr. Chairman, my question may also be ruled out of order by what you have just said. Also, it may have been answered last Thursday when I was unable to be present.

My question concerns the cost of converting CJBC in Toronto to a French station and what the proposed income from advertising is. I would also like to know what profit or loss they expect from this station.

The CHAIRMAN: I am afraid, Mr. Hales, that that information will not be forthcoming until this committee deals with the 1964 report.

Mr. OUMET: This would come under the 1963-64 report.

The CHAIRMAN: This will be dealt with by the public accounts committee which will be dealing with the 1963-64 report. I am afraid we would be departing from our terms of reference if we continued in this connection at the present time.

Mr. HALES: Just before we leave this question, can you tell me how parliament gets around to examining these costs and the profit and loss statements? Would it be an estimate committee or someone else who would check into this beforehand?

The CHAIRMAN: I am not in a position of responsibility and my answer will be made without prejudice. I would think when the budget of the C.B.C. comes before the house this budget then would include the various items of cost, the operational and capital costs, and I think this would be the pertinent time to address questions to the minister. We might not have Mr. Ouimet there at that time but the minister would be there.

Mr. FISHER: Mr. Chairman, it may be worthwhile noting that the C.N.R. and T.C.A. do provide us with a projected capital statement.

The CHAIRMAN: Of course, the framework of that committee is a little different than the public accounts committee.

Mr. Fisher, some of your questions were over the line, but I allowed you to proceed. However, you see, we are a public accounts committee, dealing with the financial statements of the preceding year and the expenditures of that year. While we might usefully make an examination in respect of future programming, and so on, I think these questions definitely would be out of order at the present time.

Mr. FRANCIS: Mr. Chairman, I was listening to Mr. Pigeon's remarks and I was going to parallel questions in respect of the English language networks. But, if you rule my question out of order I will not continue.

The CHAIRMAN: I did not rule it out of order. There is no reason why any member is not entitled to ask questions, bearing in mind that we are dealing with the 1962-63 report; but, questions directed to the current year would be out of order.

Mr. FRANCIS: I would like to join with others in requesting that more information on the C.B.C. annual report on regional breakdowns, breakdowns of costs in respect of the different language networks, the costs on the revenue side by stations, and so on should be supplied. I cannot help but feel that the C.B.C. has an important part to play in the bilingual and cultural development of this country. I realize the costs cannot be accepted at face value in any instance, but the total lack of information in this aspect of the annual report of the C.B.C. is one that disturbs me very much.

The CHAIRMAN: The information which has been requested will be given this afternoon. When our committee files its report, this is a subject matter which I think we will be quite free to deal with. At that time we will be able to deal with the form of the budgets and any recommendations we make are within the ambit of our authority.

Specifically, part of the information you are asking for, Mr. Francis, will be available this afternoon.

Mr. FISHER: Could I make one suggestion? There is a special committee, Fowler, Steele and Lalonde, who are going to be looking at many of the things we are trying to cover here, and it may be of value—I gather they are on holidays but in a few weeks they will begin to operate—for the steering committee of the public accounts committee, after reviewing the material we have here, to have a private meeting with those gentlemen and to express to them some of the questions and some of the concern which were brought up here.

The CHAIRMAN: This might be considered, Mr. Fisher, and the committee is free to make these recommendations, which would include those, at a later date, if they saw fit to do so.

Mr. HARKNESS: The first thing I would like to ask is something in connection with what you mentioned a while ago. I think it is important in so far as we are considering the expenditures as shown in 1963. Mr. Ouimet no doubt is at a point where he is going to make public the figures for 1964. I wonder if he could tell us at this time how much increase in expenditure they will show? We have these figures on page three showing how expenditures have gone up from 1960-61 to 1962-63.

Mr. OUIMET: You place me in some difficulty because this is a matter for parliament to decide. Until our annual report is tabled, it is difficult for me to reveal what it contains. It will be tabled in Parliament in due time.

Mr. HARKNESS: I thought the time has just about come when you will be tabling it, and I thought that probably you could give us some indication of the amount of increase. I was not asking for detailed figures on the budget.

The CHAIRMAN: Mr. Harkness, I would think that if Mr. Ouimet feels that this would promote our deliberations, that is fine, but I would think that it would be outside our terms of reference to ask him to disclose information on a financial statement and his report which are not yet tabled in the house, and which, as a matter of fact, will only be before the committee next year. If he wants to give the information I would not stop him, but if he feels he cannot, I am sure we would agree.

Mr. HARKNESS: I wonder if you could indicate to us whether there would be a considerable increase as far as next year's budget is concerned.

Mr. OUIMET: You mean next year's budget or the achievements of the year just finished? We are dealing with 1961-62 and 1962-63. We will be reporting to parliament for 1963-64. We are on 1964-65, and we are working on the long range forecasts.

Mr. HARKNESS: I mean the year ended March 31, 1964.

Mr. OUIMET: The year after this there will be an increase in the order of between \$5 million and \$6 million. This is without the benefit of consulting the exact figures.

Mr. HARKNESS: That increase would be almost entirely for operational expenses, not for capital expenses. Is this correct?

Mr. OUIMET: I am speaking of the operating budget.

Mr. HARKNESS: In view of that, do you see any possibility of reducing the constant increase in operational expenses shown on the table on page three which continues at an even more rapid rate than was the case in 1962-63. In 1962-63 there was very little increase. The expenditures were held down pretty well at half a million dollars difference.

Mr. OUIMET: Yes, sir. There is a means of holding them down, and that is to stop extending the service, developing the service, or keeping up with the development of television—because it is still developing generally, not just in Canada—stopping the spiralling of wages, which is no greater in the C.B.C. than in other institutions or private enterprises. All of these factors contribute to increase our cost. As far as we know, our costs are not increasing in relation to equal service for constant dollars or for a constant wage rate. There is no increase in cost. On the contrary, our costs have gone down in this respect. We have been able to reduce some of our production costs, but we have to meet conditions as they present themselves, and that includes, just on the wage side, an average increase in cost of about three per cent in Canada per year. Wages and fees are a very high percentage of the total expenditures in broadcasting, not only in the C.B.C. but in all broadcasting organizations.

Mr. HARKNESS: I was wondering particularly whether there was not some room for cutting down expenditures as far as the administrative costs are concerned. I mention this particularly because the Glassco commission report used a considerable amount of space on the headquarters organization which, as you realize, it criticizes pretty severely. It points out that over 10 per cent of the employees of the corporation were found in the headquarters group. At the same time it points out:

—the most striking feature of the headquarters organization is that fewer than 20 people are directly concerned with programming while over 800 are engaged in ancillary operations. It is therefore difficult to resist the conclusion that the headquarters organization is excessively pre-occupied with secondary matters.

It goes on and says that as a result of a recommendation of the 1959 committee the process of decentralization may have gone too far, that action was taken by the corporation to build up a central headquarters organization but that there was no real reorganization. What happened was that a whole new level of management was superimposed on the existing organization, but the effective management of broadcasting remained where it always has been, in Montreal and Toronto.

Now, as a result of this report, I wonder whether you have taken another look at the number of people at your central headquarters here and at the jobs they are doing, and made any effort to cut down the number of these people, which as far as the government organization committee was concerned, quite evidently were looked upon as being excessive and not really doing a job which contributed effectively to any improvement in your broadcasting.

Mr. OUMET: Mr. Harkness, you realize that your question contains quite a number of statements. Are we to discuss organization generally at this point? If this is the case, then I would like to tell you what we are doing with respect to organization, the study we are undertaking at the moment. However, if you are going to take the Glassco report and quote it sentence by sentence, then I will have to deal with each sentence as it comes. For example, you were speaking about the headquarters organization of 800. That includes 275 engineers, draftsmen and architects who are busy preparing the plans for consolidation and construction. Of course, this has nothing to do with the supervision of the corporation or its administration, so head office administration is not 10 per cent. When you reduce the figures to what I think they should contain, and you take engineering out of it—because this is not a supervisory department, it is a construction department—then the percentage of the headquarters office in terms of people, in relation to the total, is about six per cent. I do not think that six per cent is out of line for any organization. To find out whether it is out of line for a broadcasting organization would require a very careful analysis of the kind of supervision we have to make.

There are quite a number of statements that were made in the report which I think would warrant very careful consideration one by one. I just happened to pick one of them to indicate to you that anyone can make it look pretty bad when they say that 10 per cent of the whole staff of the corporation is engaged in administration and overhead, but out of that 10 per cent there is four per cent actually doing engineering and construction work. It therefore does not belong there in my view. Is six per cent bad? I do not think anyone can say that six per cent is bad. I think six per cent is pretty good.

As far as the suggestion that only 20 people are engaged in programming matters at headquarters is concerned, these are specialists who are dealing with such matters. It does not include the time of all the senior people who give at least half of their time to program matters.

Mr. HARKNESS: I think, Mr. Ouimet, that the basic thing is not whether it is six per cent, eight per cent or 10 per cent, but whether these people are effectively employed. In the view of the commission that examined this, they were not effectively employed. The thing that I think particularly needs explanation or a change is this statement that a whole new level of management was superimposed on the existing organization. The implication is that they are not doing useful work.

Mr. OUMET: I would be very pleased to deal with this. I would like to deal with this at least, if you will allow me, Mr. Chairman. The whole new level of management consists of three people.

Mr. FISHER: Three more?

Mr. OUMET: Three general managers.

The CHAIRMAN: Gentlemen, I stopped Mr. Fisher yesterday in part. On page 21, under the heading "special survey" the Auditor General, in his long form report, introduced this subject within certain limitations. If the committee wants at this stage to launch a discussion on it, all right, but there are some matters in between. This is one of the matters which Mr. Harkness, in making the motion which the committee accepted, dealt with. I am sure he wants to pursue it. However, I would hope we might be able to hurry on from page nine and reach these one or two other matters which I am sure the committee, from its questioning, has indicated it is quite concerned with. All members will then be able to indulge in a discussion at a time and in a manner more appropriate to this subject. I understand Mr. Ouimet wants to deal himself with the questions which Mr. Harkness has raised, but I do think he could do it better under 21.

Mr. HARKNESS: I brought this up at this time because we have been dealing with this breakdown in the number of employees in various forms of activities, radio and television, which are common to both in administration as opposed to programming. I thought this was an appropriate time to bring this up.

The CHAIRMAN: You are quite right. What we have been dealing with so far covers the whole gamut of the report, but there was a special section on this subject. When we come to it, we can deal with it then. If the committee feels that they would like to launch into a discussion on this, it is perfectly all right, but we should limit ourselves to this so that the discussion ranges around it and does not go into other matters.

Mr. FORBES: I have one short question.

Mr. HARKNESS: I do not care whether we go into it at this time or later. I am happy to go into it at a later time, but there is just one point in connection with what Mr. Ouimet said that should be put on the record at this point. He mentioned the fact that 280 of these 800 people in headquarters were in the engineering headquarters. This again is one of the things which the Glassco commission complained about. They point out that the Columbia Broadcasting System in the United States, with a total staff of approximately 12,000, has an engineering staff of only 116, and plans to reduce that number. This was two years ago when they were investigating it. They point out particularly that it is extremely questionable that the corporation should have a staff of more than 70 people in its architectural division. I would think this is the case. It is extremely questionable why there should be a staff of 70 in the architectural division. The whole engineering end of the thing, in comparison with the larger United States broadcasting system, seems to be a way out of proportion. You are top heavy in the engineering end of things.

Mr. OUMET: When you make comparisons between different organizations you have to be sure that they are organizations which can be compared. The C.B.C. is an organization engaged in broadcasting, but C.B.S. is limited by law to the ownership of only five stations in radio and five stations in television. We own in total probably 40 or 50 stations plus at least 100 of the smaller type stations. Furthermore, C.B.S. television has a small engineering staff, but it is C.B.S. Incorporated, the mother company, which has the C.B.S. research laboratories and they do the research and engineering work for them. Therefore, without a very careful comparison of exactly what they do and exactly what we do, you cannot possibly draw a comparison between the two.

The CHAIRMAN: Has anyone any further questions up to page nine?

Mr. PRITIE: I am at a loss where I should ask questions. Are we confining ourselves to the Auditor General's report, or can questions be asked on the C.B.C. report this morning?

The CHAIRMAN: You can use the C.B.C. report as a launching ground so long as they come within the ambit of our terms of reference.

Mr. PRITIE: I have a couple of questions regarding cost. I want to know what is the average cost of the installation of low power relay transmitters and the average cost of your annual operation.

Mr. OUMET: As far as radio is concerned, the average cost of installation is about \$5,000.

Mr. PRITIE: What would it cost you to operate that for a year?

Mr. OUMET: That depends entirely on how far a relay transmitter is located from the existing radio network. If it is very nearby, then the operating cost can be very small; it would be in the order of \$1,000 or \$2,000. However,

if it is some distance away, then you have to pay for the network connection charges and mileage, and then you can run into thousands of dollars per year. This applies to radio. Television is entirely different.

(Translation)

Mr. PIGEON: If I understand rightly, each year you ask for an increase, I think you said \$5,000,000 for one year; you ask parliament for that amount to operate this Crown Corporation. On what basis do you ask for \$5,000,000, you could just as well ask for \$25,000,000 a year since, as Mr. Ouimet said, the extension of the networks alone, of the French network, for example, could cost, I do not know how much, but in that connection I would like Mr. Ouimet to tell me, in general, on what general basis he asks for an increase in the budget, since this increase, if it was only up to Mr. Ouimet, might be of \$30,000,000 or \$40,000,000.

Mr. OUMET: Mr. Pigeon, the basis is as follows. First of all we have to maintain the service that has already been established. Unfortunately to maintain the service that has already been established we need, in general, three or four per cent more than the previous year simply because expenses are increasing, money has not exactly the same value as the preceding year. In addition we have to keep up-to-date with regard to technical developments. Ten years ago, for instance, there was no such thing as tape-recordings, but now this is an essential factor in our operations. So, from the technical standpoint our programmes must be as good as those from the United States simply to maintain the present level. Some salaries are increasing but I have included that in the already given total figure for the years under consideration, that is three or four per cent. In addition, well we must have enough money to operate the new stations we are asked to establish. So each year we set up new stations in various places, English language stations, French language stations, stations in the Far North, and our services are progressively increasing at the request of the public. Through the years, since television began twelve years ago, we have greatly increased the number of hours of operation needless to say. At first we operated two hours, the next year it was three. Then it increased fairly rapidly and at the present time we begin around 10 o'clock in the morning. The American stations, which 60% of the Canadian population can tune-in to directly, start very early in the morning. So we have to meet considerable competition from that point of view. We start at 10 o'clock. It would be better if we could start earlier. We could keep our audience all through the day. But as it is very expensive we are going about it slowly, very progressively. So our increases are due to two factors, namely, the gradual increase in cost from year to year in order to maintain our present service and in addition, the improvements to the service which can take the form of extensions to the network. In reality we should also—and we cannot do it because we are limited even with these increases of \$5,000,000 and \$6,000,000 a year, improve the quality of our programmes, the percentage of programmes which should be of Canadian content. We cannot improve them as much as we would like; moreover that is a minimum. That is, we ask for a little more than we are given and the Treasury Board usually cut us down by a few million dollars.

Mr. PIGEON: In other words the Treasury Board acts as a catalyser.

Mr. OUMET: Of course the Treasury Board decide what estimates are to be recorded in the books submitted to Parliament. So all the money spent from year to year is first of all approved by the Treasury Board and then by Parliament. So if the increased costs of the C.B.C. are criticized, it must not be forgotten that in so doing what the Parliament decides is also criticized. In any case we have never spent more than the amount voted us.

Mr. PIGEON: Mr. Ouimet, the Canadian public want to have colour television before long as they have it in a number of other countries such as the United States. So I am wondering why, in your future estimates or in those you are submitting, you do not provide for adapting the network in that respect so that some programmes could be in colour? Can you tell me whether it is a matter of cost which the Treasury Board refuse to accept.

Mr. OUIMET: Mr. Pigeon, in the case of colour television the C.B.C. have simply considered that the time has not yet come to launch colour television in Canada. But I can tell you that it will very soon be time to do so and that it will have to be done before long.

Mr. PIGEON: If the funds are available do you expect that in two years' time we shall be as advanced and on the same footing as the United States.

(Text)

The CHAIRMAN: We have had a very interesting philosophical discussion, but we are getting a little ahead of ourselves.

Mr. PIGEON: But that concerns the budget.

The CHAIRMAN: That is the budget for two years ahead.

(Translation)

Mr. PIGEON: To govern is to foresee the future.

(Text)

The CHAIRMAN: If you wanted to ask a question on why Mr. Ouimet did not have colour television in 1963, you would be well within the ambit of our discussions. But if you ask him whether he is going to have colour television in 1964-65, then you are out of order.

(Translation)

Mr. PIGEON: But why was that? Last year you did not provide for that since, compared to many other countries, we are surely as advanced as they are. I do not know, maybe they have a larger budget than ours.

Mr. OUIMET: It is because colour is very expensive of course, and we want to be absolutely sure that the experiments in the United States are successful before going in for colour ourselves. So last year, in 1963, we considered that the time was not yet ripe for colour in Canada because of the considerable cost. If it were not for the cost we could, of course, have started colour television. But as it is very expensive, it was too early to do so.

Mr. PIGEON: Just one last question. Have you any idea of how much it would cost for the two networks—the French and English networks?

Mr. OUIMET: In general, to operate colour television—and I am not speaking of the investment cost—I would say approximately 15% more than black and white.

Mr. PIGEON: Thank you Mr. Ouimet.

(Text)

Mr. FORBES: Mr. Ouimet, I think it is about two years ago that you were directed by the board of broadcast governors to have your programs contain 50 per cent or more Canadian content. If I am right in assuming that, has this caused you more expense than if you were renting or purchasing films?

Mr. OUIMET: No, sir, because actually our own policies call for a greater content than that imposed by the B.B.G. on all broadcasting stations in Canada. The percentage stipulated by the B.B.G. is 55 per cent actually, and on our network we transmit about 65 per cent. We do so in accordance with our own policy. We think that a national service would not be doing its job if it did less than this amount, and we would like to increase it if possible. The problem

is that it costs money to produce Canadian programs, while usually we make money showing United States programs. There is a difference in economics there, and we would like to do more, but it will cost more to raise the percentage of Canadian programs in our schedule.

Mr. FORBES: Have you increased your staff as a result of this directive?

Mr. OUIMET: No, because I think we were doing 65 per cent ourselves before the B.B.G. came into existence. So the directive of the B.B.G. has not caused any increase in staff.

Mr. FORBES: You said you would make more profit out of American films. Therefore, I would assume that it must cost you more to produce your own.

Mr. OUIMET: Yes. When we buy American films or American syndicated programs we pay a small proportion of the cost of making these films. These films already have been paid for by the American distributors so they are available here at a very cheap cost compared to the cost of making a film. In respect of our costs of making programs in Canada we have been able to keep much below the American costs; perhaps one half or one third. But, when you pay, say, \$3,000 for the rental of an American syndicated program that costs \$60,000 to make, then we cannot possibly compete purely on the basis of costs.

Mr. FORBES: Do you employ principally Canadian artists, engineers and so on when making your own programs?

Mr. OUIMET: Yes, all the staff is Canadian. In respect of artists, I would say 95 per cent of our total expenditures are for Canadian artists and maybe 5 per cent for international artists or talent.

The CHAIRMAN: Mr. Fisher is next, and then Mr. Rondeau and Mr. Cardiff. I hope we will be able to continue this morning beyond 11 o'clock in order that we may be able to finish up to page 9 and then get back on the rails this afternoon.

Mr. FISHER: If you look at page 4 of the Auditor General's long report for the year ended 1963, under what heading would appear the expenditures, say, where you hired or contracted with the Canadian producer to prepare a program for you.

Mr. OUIMET: Are you talking about a contract producer?

Mr. FISHER: Yes.

Mr. OUIMET: Or, a film production?

Mr. FISHER: A contract producer.

Mr. OUIMET: You are referring to where we include a producer on contract?

Mr. FISHER: Yes.

Mr. OUIMET: That would be in salaries and wages.

Mr. FISHER: Would you give us a rough estimate of the extent of television work you farm out which is not basically a C.B.C. production with all the C.B.C. resources. I am thinking of a kind of organization such as Screen Gems which produces the Berton program.

Mr. OUIMET: We are talking about different things. I was speaking earlier about the number of producers we have on contract—that is, either on a series of programs or on an occasional basis. But, you are talking about the amount of film or program production from outside.

Mr. FISHER: Yes.

Mr. OUIMET: And, your question?

Mr. FISHER: Generally, what is the ratio? Perhaps that is an unfair question. What I wanted to know is whether it would be possible in your budget to have a breakdown showing the amount of money that is actually going, say, to the national film board as an outside producer, or an individual firm?

Mr. OUIMET: Well, we always could do this. But, again, we are dealing in a competitive field. I think the national film board publishes it in its own annual report, if I am not mistaken. At least, I think they did. But, when you get to the point of publishing how much is going to various segments of the industry I am wondering whether this will be sufficiently useful to you to warrant the other difficulties.

Mr. FISHER: Well, let us look at something which may be very useful. You break up your programming into different aspects, public affairs, news and features, and this kind of thing.

Mr. OUIMET: Yes.

Mr. FISHER: Is there any reason why you could not have a budget to cover that? I have in mind a budget revelation on how much you were projecting to spend on, say, public affairs; how much on variety, and so on.

Mr. OUIMET: Of course, the minute we make our schedule we have that and we allocate our budget. We have all this information.

Mr. FISHER: But we have not it.

Mr. OUIMET: I know. For example, there are problems in the presentation of this information.

Mr. FISHER: What are they?

Mr. OUIMET: What I mean to say is that the B.B.G. has a number of categories which they use in connection with the private stations' logs, and we also have to supply the same information. It is very difficult to divide programs into exact categories. For example, if you have music of a religious type, is this religion or is this music? If you have music in a ballet, is that dance or is that music? In this way you end up with a pretty arbitrary division. In any case, I find no great difficulty myself in making an attempt to give this information, but perhaps it would not be as useful as you would think it would be.

Mr. FISHER: Let us take a look at the major categories. First of all, you have, let us say, American programs commercially sponsored. I do not know what the classification of them would be, but that is one of your major programming categories.

Mr. OUIMET: If I may interrupt, we do not think of them as American program categories; they are either drama, variety or music, you see. Then, there is the other category; you have the American, the British and, so far as we are concerned, you also have the French, the European as well as the Canadian.

Mr. FISHER: This is the subject upon which I want you to elaborate. There are a number of ways you can classify your accounts in your budget so that we could get a better picture of what you are doing and on what you are spending money. Now, surely you should be able to give some kind of projection of what you intend to spend in the coming year on drama and break that down into Canadian originations and foreign. Surely you can tell us how much you are going to spend in your news department for the coming year. You should be able to give us a sort of rough projection.

Mr. OUIMET: For the coming year? You are talking about the budget now?

Mr. FISHER: Yes.

Mr. OUIMET: You know, I am in the hands of the committee.

The CHAIRMAN: I think Mr. Fisher's question is a general one; I do not think he is referring to the 1964 budget. Am I correct in this assumption?

Mr. FISHER: I am suggesting the information you bring to parliament and the headings under which you work with treasury board should give some indication of what you are spending. The reason I raise this is not to stir up

anything but more and more of these questions are being asked about the amount of spending you are doing, say, in respect of Canadian talent, the ratio and so on.

Mr. OUMET: This we can answer directly very easily. It is much less difficult to answer when dealing with the matter like this and tabulating anything we have done than in getting into these categories a year ahead of time in respect of how much will come from each area. We would have to schedule away ahead of time in order to do that.

Mr. FISHER: Well, you talk about balanced programming and you say the C.B.C. wants to offer balanced programming. Surely you have some kind of formula or analysis. You know what the pattern is and what you are going to do, and I suggest if you are going to offer balanced programming—and this is what you say the C.B.C. offers—you should know what is going into it and how much generally the components are going to cost. You should be able to give us some projection in this respect.

Mr. OUMET: Of course, we know, but the question is how much of this can be reasonably expected to find its way into the budget or the annual report. You see, we table a budget in parliament every year. I had never received any indication before today that what we tabled was not satisfactory, and neither had I received any indication that our annual report was not satisfactory.

Mr. FISHER: I want to offer an objection here. I have been in attendance at all the broadcasting committees and surely you, Mr. Ouimet, have been aware of the way that members of parliament in committee have thrashed around and probed in an effort to obtain information. You will recall one committee which had over 1,000 pages of evidence, most of which contained appendices which you provided here and there. I suggest that was an example of the fact that your annual report and budget statements are inadequate.

I would like to put it to you that every time the broadcasting committee has met over a long period of years, if you want to get a quantitative sample—

The CHAIRMAN: If I may interrupt, Mr. Fisher, I think we are getting beyond our terms of reference. You are making a valid argument on the basis of why you think Mr. Ouimet should include more information.

Mr. FISHER: More financial information.

The CHAIRMAN: Yes, but I think it is irrelevant whether or not he knew about it or did not know about it. I think this is a matter for our consideration.

Mr. FISHER: But I did not want to leave him with his argument on the record without some counter statement.

The CHAIRMAN: You have commented on this.

Mr. FISHER: Could you provide in your annual report or in your budget breakdown, which we find in the Auditor General's long report, such information on how much you spend or have spent or planned to spend on procuring programs from beyond the Canadian borders for each of your networks?

Mr. OUMET: Yes. This certainly can be done.

Mr. FISHER: Well, it is terrible to get into what is fair. But, if the figures showed that there was a larger percentage of revenue or money being spent on the French network for original Canadian programs than is the case with the English networks I think this would be information that would be useful and most interesting to parliament. I just want to put it to you that it is for that kind of reason that I put the question.

Mr. OUMET: I can answer you right now. This is not the case; it is the other way about.

I told you yesterday—and you will have the figures this afternoon because you asked for this information on Thursday—that we spend about in the ratio of one third French, two thirds English.

Mr. FISHER: But, this is total, and I am talking about internal.

Mr. OUMET: Well, this is internal also. The American programs are obtained mostly for the English networks. There are very few American programs available for the French network, and they are paid for totally by the sponsors, if we are talking about syndicated films. When we talk about feature films, then we have the same situation roughly in respect of both networks.

Mr. FISHER: I want to suggest that what you have done here in response to this is what you do repeatedly, and it does not answer what I want to know. I am sure you can provide random one shot pieces of information; you do this for broadcasting committees. But, I am suggesting this kind of categorization should be available on a regular basis in your annual report and in your budget preparation.

The CHAIRMAN: Mr. Rondeau is next and then Mr. Cardiff.

Your comments have been noted, Mr. Fisher.

(Translation)

Mr. RONDEAU: Mr. Ouimet, I rather think that some information is lacking here when one looks at the figures in your estimates. Do you not by chance have any other information you could make available to us, namely, the expenses of your corporation, of the C.B.C., by province? Would it be possible to have that information, the per capita cost of the corporation's operations by province? A moment ago you mentioned the overall per capita cost for Canada I think. That is what you meant when you said that it might cost up to \$3 a head and sometimes up to \$6? So would you have those figures available so that we can know the per capita cost by province?

Mr. OUMET: It is certainly possible to divide the cost in a number of ways, but let us take a closer look at the question. For instance let us take the case of the French network. We could also take the case of the English network, but let us take the case of the French network. Approximately 95% of the programmes originate in Montreal. But despite that, these programmes are seen by people in New Brunswick and by people in Ontario. So, should we calculate the per capita cost merely by dividing the cost of programmes by the population of the province of Quebec, or should we divide it by the number of French-Canadians throughout the country who see these programmes. In Toronto and Montreal, of course, the two largest cities of the country, there are a lot more performers and they can get other jobs besides those with the C.B.C. But, of course, the two large cities produce a lot more than the other cities of Canada.

But I think that is fair. I cannot see how the per capita cost figure could help, because it is not the cost of programmes for residents of Ontario or Quebec. This is the cost of the programmes for the entire country. We could not, in the case of programmes originating in Vancouver, divide the cost of the Vancouver programmes by the population of Vancouver to reach a figure that would have some meaning. I do not think it would be much use.

Mr. RONDEAU: I think you have gone beyond my thinking in the matter. I meant statistics concerning, for example, the number of employees of the C.B.C. by province?

I do not see any indication of the number of employees of the C.B.C. earning, say, \$15,000 or over, \$10,000 or over, \$5,000 or over, in the report. For example you have the one heading here for salaries and wages. They are taken all together and one cannot see which are salaries and which are wages. We know you have employees who are merely wage-earners, and other employees who receive salaries. So we do not know what salaries amount to or what wages amount to. It is statistics such as these which to my mind . . .

Mr. OUMET: Mr. Rondeau, that is the kind of information parliamentary committees have asked us for, but quite frankly I do not think we can be expected to submit an annual report, which is a report prepared like that of any other company or business, with figures that go into the details you are proposing, but these figures and this information are those we have supplied. I think we were asked to supply them each time in the past by parliamentary committees. We were asked to supply precisely this kind of information and we did so. But to give all this detail in a public report would take volumes. You are thinking of a few figures but there are several other ways of dividing those figures. I think we are following the tradition established by the Crown Corporations and companies. We are not a government department. There is a distinction to be made.

(Text)

The CHAIRMAN: Would you proceed now, Mr. Cardiff?

Mr. CARDIFF: I have just one question.

Mr. Oumet, you told us that you buy American film and make money on this. Is this a one way street or do you have an opportunity to sell Canadian film to the Americans?

Mr. OUMET: I wish we could sell them as much as we buy from them. As in other respects we have a bit of a problem here. But, we do export some programs. We do not export a great deal to the United States but we do export some. We export to Great Britain and Australia.

Mr. CARDIFF: Could you give us any percentage which would show the difference?

Mr. OUMET: Oh, it is all one way.

Mr. CARDIFF: It is practically all one way?

Mr. OUMET: It is practically all one way, for one good reason. The American programs we import are produced in Hollywood. They are produced for the international market, while the programs we make here we endeavour to make with a Canadian character. We do not try to make them with an international flavour because if we did we would be just defeating the very purpose of our existence. But, the whole problem of broadcasting in Canada is to try and keep something Canadian before the Canadian public and to try to hold Canada together in the face of this tremendous amount of broadcast material that is coming over the border either directly on the airways—I already have mentioned that 60 per cent of the Canadian population receive American stations directly—or imported by the C.B.C. and the private stations. We have to mount and sustain an operation which is Canadian in character and which will be sufficiently good in comparison with what our wealthy neighbours can do in order that we retain a sufficient proportion of the audience and, therefore, make it worth while doing our job. And, in order to mount and sustain such an operation there is a minimum amount that must be spent.

Mr. PRITTIE: If Mr. Cardiff would not mind I would like to ask a relative question at this point. Are the programs which you do sell to Great Britain and Australia included under miscellaneous income and, if not, where would this figure be shown?

Mr. OUMET: Yes.

The CHAIRMAN: To which table are you referring?

Mr. PRITTIE: I am looking at the company's report, page 21, where you have income, miscellaneous, \$302,000. If any programs you sell are included in that amount, then it is not a very great amount.

Mr. OUMET: Can we check this point? There seems to be some confusion amongst us in this regard.

Mr. PRITTIE: I would like to know what you make on the sales of programs to commonwealth countries?

Mr. OUIMET: We will check on this and obtain this information for you.

The CHAIRMAN: This information will be supplied either this afternoon or this evening.

Mr. CARDIFF: Those are all my questions.

The CHAIRMAN: Would you proceed, Mr. Fisher.

Mr. FISHER: Can I put on the record another disclaimer. Mr. Ouimet has suggested that in achieving a Canadian standard or Canadian quality this rules out the international possibility. I want to put on the record that I do not believe this is so and that I think in many areas—I am speaking of drama and variety—if we cannot meet international standards or try to meet them we are classing ourselves as duds.

Mr. OUIMET: I would like to answer that question.

The CHAIRMAN: Gentlemen, I think we are getting beyond public accounts again.

Mr. OUIMET: We are not talking about the same thing. If you are talking about professional standards, of course, we have to meet these standards and in this respect we do very well. But, on the other hand, you cannot have something typically Canadian that will appeal to all the markets of the world unless, it is travelogue. In other words, a Hollywood product has an international flavour which characterizes it. We do not want to duplicate the Hollywood product because we would be spending a lot of money to do what they already do very well.

The CHAIRMAN: I really feel that both the questions and the answers that are being put on the record at this time are far beyond what we should be dealing with at this time. Of course, this is a problem. We should not be dealing with this aspect of the subject at all.

Would you proceed, Mr. McMillan.

Mr. McMILLAN: Mr. Chairman, I was interested in page 4, and I agree with Mr. Fisher when he says there is not enough breakdown. For instance, I am looking at salaries and wages, for which the figure of \$44 million is set out. In the different departments of government, for instance, it shows the number of employees in our estimates and in the public accounts it gives their salaries under different categories. But, we are confronted here with an expenditure of \$44 million without a further breakdown, and I think this is really too much. Also, I think that the top item here, \$17 million, should be broken down under these different headings such as artists, speakers and so on.

Would it be possible to get a further breakdown of that \$44 million, \$17 million, and this other category of \$13 million, department expenses generally?

Mr. OUIMET: I think I have already said that it is possible to give this information, and we have given it consistently to parliamentary committees on broadcasting. We have already given you some of this information. The information you have asked for we will be giving to you this afternoon. On the other hand, your suggestion seems to indicate that you are placing the C.B.C. as a crown corporation very much in the same category as a government department, and there is a distinction which was made very clear when the C.B.C. was established. It has a different administrative set-up, with 11 directors; it has a board of directors, with nine outside the corporation who are part time, and these are the trustees appointed by parliament. Now, this is the system that has been established. On top of that we have the treasury board supervision. The officials go over our budgets; they ask a lot of questions

before we appear before the treasury board itself. The treasury board is made up of ministers of the crown and they then pass on the budget. Now, all of this could be different but that would be a decision of parliament. At the moment we are set up as a crown corporation and we are reporting as a crown corporation.

The CHAIRMAN: Gentlemen, can we now take it that we have exhausted our efforts up to page nine and that we will start this afternoon with the balance sheet at page nine and go through and conclude this afternoon and this evening.

The meeting will be adjourned until 3:30 this afternoon, at which time we will be starting on the balance sheet at page nine.

Mr. FISHER: Will the meeting be held in this room?

The CHAIRMAN: Yes. All meetings are being held here today.

AFTERNOON SITTING

TUESDAY, July 7, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. Before we start I have two returns which were asked for by members and which are now being tabled by Mr. Ouimet: One is the operating cost of radio and television services in English and French, and the other is the approximate cost of a typical week's programs in the fall schedule. These are both in English and French. Could I have a motion that these be tabled and printed as an appendix to today's proceedings?

Mr. PRITTIE: I would so move.

Mr. RONDEAU: I will second it.

The CHAIRMAN: These should be distributed to members. There are enough copies to go around to our quorum.

While they are being distributed, before we go on to the next item on page nine, Mr. Ouimet would like to make a general comment with regard to matters brought up. We will then go to the balance sheet on page nine.

Mr. OUMET: Mr. Chairman, I will be very brief. This morning I answered a number of specific questions regarding expenditures and general policies which govern such expenditures. However, I observed that there was a general desire on the part of the members of the committee to have the corporation provide in its annual report more information than we have provided in the past. Without such complementary information I can well see that you find it difficult to form an opinion regarding the nature, scope and the efficiency of the C.B.C. operations. I believe a lot can be done to improve this situation, and I would like to take this matter up at our next board meeting so that our next annual report may be more directly and explicitly informative and useful to you, keeping in mind the many suggestions you made this morning. I would not like to tie myself down to a specific format at this time because obviously this will require very careful consideration. I simply have the personal conviction that we can meet your needs for more information without getting into a great deal of complication.

If you will leave this in my hands, Mr. Chairman, I think we can get at least a good part of the answer to your problem and to our problem.

The CHAIRMAN: Thank you, Mr. Ouimet.

Can we go on to page nine, the balance sheet? Mr. Henderson, have you a comment to make on this?

Mr. HENDERSON: If hon. members will open up their copies of the corporation's balance sheet and the printed annual report in the appendix to the 1963 report as of March 31, 1963, they will be able to follow what is stated in my report as we deal with each of the assets and liabilities.

The first reference is on page nine of my long form report dealing with cash, which you will see from the balance sheet amounted to \$3,617,000 at the balance sheet date. I give a brief reference to what makes that up and refer to our certification of it.

We then come to accounts receivable, which are \$3,664,000, and we give a brief summary of their nature. You will see that they are primarily trade account receivables; in other words, receivables due from sponsors, that is billings not paid at the date. My officers carried out a partial circularization of the balances of trade accounts receivable at various dates along with the internal auditors of the corporation. This is a standard test type of verification that is usually applied by auditors. The reserve for doubtful accounts remained unchanged at the figure of \$10,000, and it would interest you to note that during the year bad debts written off amounted to \$3,345 as compared to \$5,523 for the previous year.

The CHAIRMAN: If any members wish to ask any questions at the conclusion of Mr. Henderson's comment before we go on to the next item, this is the time to do it.

Mr. HALES: Yes, Mr. Chairman. First, I would like to ask the Auditor General if he does not think they should circulate all debtors with the accounts receivable the same as business organizations do simply by sending out the regular form stating the amount owing, and if this is not correct you do not have to report back. Why do we not follow this system?

Mr. HENDERSON: It is usually left to the discretion of the auditor whether he would apply what is called a positive circularization of the type you described or a negative. This time we carried out a positive circularization of this group instead of circularizing them all, and leaving it to them to tell us if they did not agree, because experience has shown a great many of the recipients do not pay any attention to the less than positive type circularizations.

Mr. HALES: In your position formerly in the business world did you not circularize everyone?

Mr. HENDERSON: We used both methods. It would depend on our judgment as to the system of internal control present in the business, the efficiency of the procedures, the promptness with which accounts are customarily paid and the creditworthiness of the people. In the case of the C.B.C., they are dealing primarily with large national advertising agencies. It is a matter of judgment on the part of the auditor. I agree with you there is nothing better than a complete 100 per cent check, but we try to use our best judgment.

Mr. HALES: This deals with public funds, and I think we should have a complete circularization rather than a positive circularization, as you refer to it.

Mr. HENDERSON: I am very glad to have your views because we deal with this type of problem in a number of crown corporations.

Mr. Stokes has just reminded me that in many cases of course we are able to confirm receipt of the money settling the account by looking over receipts in the following months, and that will invariably dispose of a number of the outstanding debts.

Mr. HALES: I have another question regarding accounts receivable of a little over \$3½ million out of a revenue of \$33¼ million. Is this a fair proportion?

Mr. HENDERSON: I would think so, based on the turnover.

Mr. SOUTHAM: I have another question on this particular item of accounts receivable. I notice in the listing on page 10, under the heading, "Miscellaneous" in the year 1962 you have \$148,070 and in 1963 the figure increased to \$285,903, or almost twice as much. I was wondering if you could give us roughly a few instances of what constituted this increase under this particular heading?

Mr. HENDERSON: I would ask Mr. Davies if he has the details on that.

Mr. V. F. DAVIES (*Comptroller, Canadian Broadcasting Corp.*): No, I am sorry I do not have this readily available. We could make it available.

The CHAIRMAN: Is the committee agreed that this might be made available and the answer printed as an appendix so that information will be here?

Mr. HALES: I have a question in connection with the accounts written off. I would like to know the top three accounts that were written off and the amounts involved.

Mr. DAVIES: The top three accounts would be: the Dartmouth Food Plan Limited, \$1,200; the Civic Square Theatre Foundation, \$594 and the Wild Duck restaurant, \$650.

Mr. HALES: Regarding the highest one of \$1,200, your credit department would know that this account was behind and yet it continued to allow advertising. What policy do you follow in that regard?

Mr. DAVIES: The policy we have is that where an account is open for sale, when the order is written, if it is not a well known customer and his credit is not already established, this goes to the accounts department of the area or region involved which calls for a credit report of the prospective customer. They discuss it with the sales department on the basis of the credit rating that is usually established. If there is no credit rating, then they would come to an agreement on how the payment would be made, either in advance or in some other way. Normally it is usual that the credit rating is available and sales are not made until this is available. There are odd cases where payments are made in advance of the commercial, until the credit rating is established. In this particular case I would think it must have been one where something untoward happened to the people involved, and they got behind in their payments and were unable to satisfy the balance of their account.

Mr. HARKNESS: You mean they finally went bankrupt and you could not collect?

Mr. DAVIES: This would be the case. I do not know whether this is what happened in this particular case, but the ones that we have had heretofore were dealt with in this manner. Some of them do come back years later and pay these in small pieces.

Mr. HALES: Would there be a credit man in the area responsible for this, or is this from the central office?

Mr. DAVIES: The chief accountant of the area has this responsibility. There is a credit manager in my office who co-ordinates the general activity so that if there are credit ratings the chief accountant cannot get hold of he contacts the credit manager. Also, if there are questions in one region of the country where a particular advertiser is having trouble, the credit manager gets to know about it by virtue of the reports and he would circulate this to the other accounting offices so that we should not get an imbalance in the relationships between one area of the country and the other.

Mr. HALES: Are there any incentives to your credit manager on a percentage basis for accounts collected, or the opposite, that is deduction for moneys lost?

Mr. DAVIES: We have not done this because of the very small nature of our experience of loss. We find that it would be very difficult to put him on any incentive on this basis because he is not directly related in this way to this kind of error.

Mr. HARKNESS: How long do you hold these accounts in your books before you write them off?

Mr. DAVIES: We do a review every year in complete detail of the balances and accounts receivable. Where there has been a very slow paying account, it has been open for 12 months. We discuss this with the salesman and it is under discussion with the customer. If it looks as though he were in a poor sort of situation, then we would write off the account. If it looks like a fairly healthy situation, recovering in the next year, then we might decide to keep it open. Normally we operate on a conservative basis where we would try to get a write-off within a year.

Mr. HARKNESS: What percentage of these receivables would have been behind payment for six months or more?

Mr. DAVIES: The paying of accounts receivable? It is 96.8 per cent for 60 days, 86 per cent were 30 days. There was only about three per cent that were on the other side.

Mr. OUMET: I believe the question was how many were beyond six months. I think there were very few.

Mr. DAVIES: Oh, beyond six months? It is .7 per cent, or \$20,000.

The CHAIRMAN: Mr. Henderson, would you carry on with page 11? We did deal with the investment of bonds when Mr. Rock was here.

Mr. HARKNESS: I have one question on that. Why is this investment of approximately a million and a half Canada bonds held over? What is the purpose or the reason for it?

Mr. HENDERSON: That is a hangover, I think, from some securities they had some years ago, and because of the low market value they are holding them to maturity, which will occur in 1968—that is their present intention. Ordinarily, the corporation would not have occasion to have an investment portfolio.

Mr. HARKNESS: Parliament has voted \$70,000,000 odd for the year's expenses we are dealing with here, and I wonder why the corporation was holding these \$1,500,000 in bonds.

Mr. HENDERSON: This is a hangover going back a number of years. They would have been faced with a loss on the market had they disposed of them. The corporation formerly had advances and thus had some surplus funds, so they invested it in these securities. With the market price falling, their best hope would be to hold them until maturity. I think Mr. Ouimet would like nothing better than to cash them now, but he would not want to do so and take a loss of about \$120,000.

Mr. OUMET: If we can hold on for another two or three years we will recover the full amount.

Mr. HARKNESS: Very well.

Mr. HENDERSON: The next item deals with "Engineering and production supplies, \$1,645,955". There I give the composition of the balances. It is a fairly routine inventory carried by the corporation made up of engineering supplies, production supplies, and engineering work in process.

In the last paragraph on page 11 you will notice that during the year they had some write offs, not very much, but approximately \$3,000. There had been heavier write offs in previous years. And on page 12 we give a rather similar picture with respect to the next two items on the balance sheet which are "Programs completed, and programs in process of production, \$3,588,990".

These consist of programs which have been made and put on videotape and are being held pending showing; and programs which at the date of the balance sheet were in process of production. We show the cost of the programs completed and in process, broken down by various regions. This is a breakdown which will probably be interesting to Mr. Fisher in the light of his earlier questions. And we point out that the bulk of the program inventory continued to be in Toronto and Montreal for the English and French networks respectively, and we indicate the approximate dates when this inventory will be used.

On page 13 you will see that we show the approximate telecast dates. We look at them to satisfy ourselves that the inventory is of a current nature and is in fact going to be used. We then make reference on page 13 to the write offs in this area which during the year totalled \$115,119 as compared with \$206,193 during the previous year. It will be interesting to note that the write offs at this level represent the cost of 106 programs or parts of programs which for various reasons were abandoned. Most of the programs written off involved a cost of less than \$1,000, but there were two items in there which involved a rather larger amount. I indicate what these were and I give the reason why the corporation took the action that it did.

Mr. FISHER: In view of the fact that you referred to the point this morning—

The CHAIRMAN: I believe Mr. Hales has indicated that he wanted to ask a question.

Mr. FISHER: It was because this morning I raised the point about some contract. Is it an unusual experience to have outside producers go bankrupt, as in this case?

Mr. OUMET: It is certainly unusual to have one go bankrupt and leave us holding the bag for \$4,000. But I would not be able to answer you whether there have been other producers who have gone out of business.

Mr. FISHER: In hiring a producer what sort of preparation do you make to determine his financial position?

Mr. OUMET: There are two things we have to determine: We have to determine his production ability, his creative ability as well as his financial position. In this particular case this company had produced over the years for us a number of outstanding series of excellent programs in every way. This was an outstanding production company. And finally, unexpectedly, they had financial difficulties and we took a loss.

But if you consider the kind of programs and their value in terms of program material which we got over the years from the company, I think we did very well. It was one of our best outside producers.

Mr. FISHER: This seems something like the Pearson film situation wherein you had the C.B.C. providing a part of the production facilities and part of the loss was due to his cost as well as the producer being responsible for a certain share?

Mr. OUMET: I believe that this particular company produced these films in toto completely and delivered them to us.

Mr. FISHER: What rules have you for the other kind of operation where you have a mix, where your equipment and facilities may become part of the cost to picture?

Mr. OUMET: We have a great many variations of arrangements varying all the way from the commissioning of a film where the total and complete assignment is given to an outside producer, to the arrangement where we have our own producer moving in, sometimes with C.B.C. assistance, and using only the technical facilities of the outside producer. You have a full range of possibilities, and each case depends on the needs at that time.

Mr. FISHER: I shall ask Mr. Henderson this question: When you approach an analysis in this particular area is it at all clear, and is it apparent as to the different arrangements, in so far as the cost set up is concerned?

Mr. HENDERSON: I would say so. We have not had any problems in that regard. Perhaps Mr. Stokes might care to speak to this question.

Mr. A. B. STOKES (*Audit Director, Auditor General's Office*): I do not think our audit would enter into this particular field really. We are interested in expenditures which might be incurred rather than the policy which a company might adopt in producing anything.

The CHAIRMAN: Would you mind speaking louder, Mr. Stokes.

Mr. FISHER: How important is it to have this flexibility?

Mr. OUMET: I think it is quite important and particularly in the case of Montreal where we have fewer studios than we need. Because of limited facilities we do have to assign a number of these productions outside in greater number than we do, relatively speaking, in Toronto.

Mr. FISHER: Do you contemplate the time when you finally get your ideal facilities at Montreal and Toronto that this matter will change at all?

Mr. OUMET: It might change to a certain degree but I do not contemplate the day when we would do everything ourselves.

Mr. FISHER: In view of the indication that you will consider putting more information in your annual report, I wish to make the point that this is one of the areas which to me would be most interesting; I mean to have a sort of continuity from year to year, and a keeping of a record which would indicate the amount of spending which you have done in the sort of contracting out or partial contracting out of the various arrangements.

Mr. OUMET: I think this information could be provided.

Mr. HENDERSON: I might point out, Mr. Fisher, that in my report to the house I refer to these inventory write offs. The information you are seeing here was shown in this case in my report to the house. I did not name the programs or the films, but I show them because, as you know, the committee's directions to me over the past several years have been to show non-productive expenses. And where they occur in the case of crown corporations they appear under the appropriate captions in my report of those corporations.

Mr. FISHER: It certainly does appear to be a major figure, but I assume in the light of what has happened recently it will become a most interesting one.

Mr. DAVIES: In respect of this figure and bearing in mind Mr. Harkness' question, in this particular case we are still in negotiation with the trustee under the winding up act in order to recover a certain part of the funds involved, and where we do this it will reduce the value of the amount that we have written off.

Mr. FISHER: In the second one listed, the Alberta game farm, this difficulty had nothing to do with Al. Oming who ran the Alberta game farm?

Mr. OUMET: No. This was purely a technical fault.

Mr. HALES: I am sorry but I shall have to go back a bit here. On page 11, "Engineering and production supplies", are these priced at cost price?

Mr. HENDERSON: Yes sir.

Mr. HALES: As to these technical supplies and this great inventory which you carry both here at Ottawa as well as at Edmonton, do private television stations carry such inventories as this, or do you interchange with one another in respect of engineering supplies? I suppose Mr. Ouimet might answer this question.

Mr. HENDERSON: Are you directing your questions to me?

Mr. HALES: All right.

Mr. HENDERSON: I do not believe there is any interchange between the corporation and private broadcasters in this field. It might occasionally take place, perhaps.

Mr. OUMET: I believe that is correct. There are times when we do help one another, if there is a major part missing and we have one while they do not, or it may be vice versa. This has often happened in the past, but there is no attempt to have a common inventory for use by the two stations, the C.B.C. and the private station. I would say generally that the stock might be quite different, depending on the kind of equipment used, whether we use the same kind of make and so on. Although there would be some parts which would obviously be common.

Mr. HALES: Why would you set up a storage of this material in this day of such fast travel? Would not a central place be able to fly the necessary parts when wanted to where needed?

Mr. DAVIES: This is a question—we are talking about—inventories and holding our immediately required spare parts, in relation to the technical equipment involved such as cameras and that sort of thing, for which repair parts could be flown from a central area.

Mr. OUMET: Some of this equipment is fairly expensive per unit. For example, a camera tube costs something of the order of \$1,700 to \$1,800 and if you have a number of cameras, you will need a number of tubes as spares. And the same with transmitter tubes, such as for the 50 kilowatt station—at one time they cost \$3,000; and then there are the recording heads for videotape recorders. I believe they cost something like \$1,400 per head. So it does not require very much to mount up.

Mr. HALES: I just wish to call your attention to the fact that business is tending towards central storage and supplies rather than expanding. Most companies are pulling in their warehousing to a central point, while you are doing the opposite. This is where part of your cost would be involved, and this is what is costing the C.B.C. money.

Mr. OUMET: I am not sure that we are decentralizing our warehousing. I have not studied this particular problem recently and I am at a loss to give you exact information. But I do not think we are decentralizing at the moment.

Mr. DAVIES: As a matter of fact, I think this is a very difficult question to determine, as you must be quite well aware. It depends entirely on the immediacy of the requirements; it depends on the geographical distribution whether or not you have certain main centres or just one main centre. About 1957, I think, there were centralized stores in Montreal, and this question was studied. But the larger part of those stores were moved separately to each of the areas and divisions; and along with this there was a decentralization of the purchasing department; and whereas heretofore all the purchasing had been done through one central office, there were purchasing agents set up in these areas, and some of them have other duties, so that the immediate requirement to be purchased at a particular station need not be referred through one central office. We have studied this and to the extent we have done it so far it seems to have produced good economies. Now, one never is satisfied, and with an inventory of this size, currently we are continuing to look into this matter to see whether or not certain developments can be made in respect of classification of the inventories on hand, for instance, the slower moving items, to ascertain whether they need be stocked, or whether they are of a nature that they need not be stocked at all, but can be ordered directly from the supplier.

Mr. OUIMET: Perhaps there is one point I should stress. In our type of operation there are supplies which would lend themselves very well to the centralization of which you have spoken, and there are other types of equipment which obviously are needed to keep us on the air. In these cases even a fast jet would be much too slow a process in getting the equipment on the spot. So, tubes, cameras, recording heads, and that sort of equipment must be right there on the spot, because if you lose one, two or five minutes, it is one, two or five minutes too long. It is not quite like it is in industry. However, there are other cases where I think your observation would apply completely.

Mr. HALES: All right; but you have \$32,000 of technical inventory at Edmonton, according to this, and five years from now there likely will be five times that much.

Mr. DAVIES: I do not think so, because this is under continual observation.

Mr. HALES: We will see whether it goes up.

Mr. HENDERSON: We are moving into film and script rights on page 13.

The CHAIRMAN: I think there still are some questions on programs completed and in process of production.

Mr. FISHER: I have a supplementary question in respect of engineering. When you make engineering plans and drawings, are they given a book value of any kind?

Mr. OUIMET: Yes.

Mr. PRITTE: I have one question under inventory. Are tapes of radio programs, such as public affairs programs, dramas, and so on, which probably are kept in store for years, shown as a book value anywhere in the inventory?

Mr. DAVIES: No. We have physical control of these stocks, but they are not considered to be a balance sheet item.

Mr. OUIMET: In many cases they cannot be used without further payment to the artist—step up fees.

(Translation)

Mr. DROUIN: Can Mr. Ouimet tell us who was the producer of the programme entitled: "L'Homme devant la science" (Man before Science) and the extraordinary story of that failure?

Mr. OUIMET: I think that it was produced by the Niagara Company. If I am not mistaken I believe it was the firm Niagara Films.

(Text)

Mr. HARKNESS: Are most of these programs shown as in process of production on video tape?

Mr. OUIMET: Most of them are on video tape; an increasing number are.

Mr. HARKNESS: Some are on video tape and some on film?

Mr. OUIMET: Some would be on film, but I would say that an increasing percentage is on video tape. There is a great proportion of our production now which is put on video tape for a number of reasons. Video tape permits us to equalize our manufacturing load, if you want to call it that, or our production load, so that instead of having a peak season right in the middle of the winter when we have our peak programming, and a very hollow summer, we can produce some of our programs in the summer by putting them on video tape. In this way we can use our facilities and our staff with greater efficiency. There are other advantages in recording these. Without any great additional cost you are able to stop and start the production in order, say, to permit changes in costume or scenery; there are many advantages in recording on video tape.

Mr. HARKNESS: How much of the \$15,000 in 1963 and the \$206,000 in 1962 were programs which the C.B.C. had made themselves and did not use?

Mr. OUMET: We do not have the information before us. On the other hand, take the year ended in 1963 where the total was \$115,000, out of that \$44,000 was outside. That would leave a possibility of \$71,000 which might include both inside and outside production.

Mr. HENDERSON: The \$115,000 would largely represent parts of programs. It was spread across 106 separate productions; but the largest are the ones we noted here.

Mr. DAVIES: We have a complete list of this by program, and we could file it.

Mr. HARKNESS: Really, all I want is the figure showing the number of programs you made yourself and did not use.

Mr. DAVIES: We could add them up and in a couple of minutes time have them for you.

Mr. HARKNESS: For those two years.

Mr. OUMET: These would include parts of programs.

Mr. HARKNESS: Would you include such items as when you send a team to some foreign country to take pictures of something or other and then decide not to use them?

Mr. OUMET: Yes; this has happened.

Mr. HARKNESS: I remember two or three instances in the past where this happened.

Mr. OUMET: I remember one.

Mr. HENDERSON: In the 1962 report you had an example of that. There was this film "Cuba Si" which was abandoned at a cost of \$46,633. This was in the \$206,193 figure last year.

Mr. HARKNESS: I would like to have a breakdown of that \$206,000 to show how much of it is in programs along this line, because this seems to me to be one of the ways in which a reasonable amount of money is in effect wasted. I do not know just how you can prevent this sort of thing, but I would think that a little better judgment before one of these programs is started might prevent quite a bit of wastage.

Mr. OUMET: Mr. Harkness, our business is that of producing programs. Our wastage occurs in the production of programs, just as in the case of a manufacturer of some other product, the wastage occurs in the manufacture of a particular product. Our wastage, on the basis of the figures we have just used, is one third of one per cent. I do not think that is high wastage. Of course, we would like to reduce the wastage. We would like never to have a rejection such as the "Cuba Si" program, but such things do happen. If we take so many precautions that programs are never rejected I am afraid the quality of programming will lose something in originality.

Mr. PRITIE: Mr. Chairman, I wonder whether Mr. Harkness will allow me to ask a question at this point related to this particular subject?

Do you have any way by which you can compare these wastage figures with figures applicable to the B.B.C. or the N.B.C. which I suppose have the same experience in producing programs they do not use? Have you any idea what the comparative figures would show?

Mr. OUMET: I have no idea what the percentage of reject programs is in respect of those companies, although I know they also reject programs.

Mr. PRITIE: They reject programs in respect of which they spend quite a bit of money; is that right?

Mr. OUIMET: With regard to program filming by the United States television industry, we know that the majority of pilot projects are rejected before they ever come to a series, but I have no figures in respect of the N.R.C., C.B.S. or B.B.C.

Mr. PRITTIE: I asked the question because we tend to be shocked by the knowledge that many thousands of dollars are spent during the year on programs which are rejected, and I wondered whether this was common experience to the business. It would be useful to know what the experience has been of other companies.

Mr. OUIMET: I cannot answer your question in this regard, Mr. Prittie, but I should be surprised if our record in this regard is not as good as the record of any of those other companies.

Mr. HARKNESS: How do these figures compare with the figures in this respect for the previous three years?

Mr. HENDERSON: Are you referring to the write offs?

Mr. HARKNESS: Yes, I am referring to the write offs.

Mr. HENDERSON: The write offs in 1960-61 totalled \$53,109; for 1961-62, which was the previous report you considered, they amounted to \$206,193, and for 1963 they amount to \$115,119.

Mr. HARKNESS: I was really referring to the \$53,000 in the two year period before that. In other words, I was wondering whether this amount was generally going up or down, or whether there was any pattern involved.

Mr. OUIMET: I would suggest that it will be a variable and will depend on the number of specific instances involved such as the "Cuba Si" program of which we spoke. The experience of one "Cuba Si" program can make a big difference in the total cost of rejects in a year, because other rejects are more or less routine and part of all programs that are not used.

Mr. HARKNESS: In connection with this particular film you mentioned, that sum would apply to all others, or videotapes, as the case may be, but who actually makes the decision whether a team will be sent over to make such a picture? Where does that decision lie?

Mr. OUIMET: We are now moving into another area, and this applies to any film whether rejected or not. You are not asking about the "Cuba Si" program in particular; is that right?

Mr. HARKNESS: No.

Mr. OUIMET: You are directing your question to any film. The decision is made by the directors of programming of the English and French network and generally is delegated to that level. On the other hand, there might be special circumstances in respect of which we might be consulted at a higher level. The decision depends on what is being made. Some of the films are pretty well routine, while others are not, and the decision in respect of the routine films are delegated further down the line.

Mr. HARKNESS: By and large the decision would be made then by the director of programming for the English and French networks respectively?

Mr. OUIMET: That is right. Mind you, the decision is made there but, of course, we are responsible for their decision. We cannot delegate the accountability. I would repeat that this is a very good record, and I think if we were to look into the record of other producers of programs, I would be very much surprised if we could find any organization with a record as good as ours. The percentage of rejects amounts to only one third of one per cent. There will always be rejects unless we agree beforehand that we are not going to follow our standards.

Mr. HALES: By the same token a private t.v. producer could not stand this kind of loss; is that right?

Mr. OUMET: No, and a private station does not make this kind of program either, because a private television station in Canada does not make a \$40,000 documentary, or for that matter a \$20,000 film.

The CHAIRMAN: Have you completed your questions, Mr. Harkness?

Hr. HARKNESS: Yes.

The CHAIRMAN: I have as the next questioner on my list the name of Mr. Southam and then Mr. Rondeau.

Mr. SOUTHAM: Part of the question I wish to ask arises from the discussion of Mr. Harkness' question, but more specifically refers to the main programs written off involving costs of less than \$1,000. You state: "... however, the two items involving more material amounts were . . .", and then you specify these extraordinary histories and the Alberta game farm program and, more recently, this one very sensitive one in regard to Prime Minister Pearson. In this respect I notice there are specific instances involving other amounts. Is there any change in policy in this regard on the part of the corporation to tighten up on economic supervision in respect of these programs so that you will not have such a big jump from writing off programs costing \$1,000 to programs costing \$40,000?

Mr. OUMET: Obviously when we have to reject a program like "Cuba Si" we do a lot of soulsearching about the situation or conditions which brought about such a situation. We do tighten up to make sure that this sort of expenditure is caught before it is too late to do something about it.

On the other hand, we do schedule programs other than programs such as "Cuba Si", at the national level, regional level, local level, in English or in French, in radio or in television, to the extent of some 200,000 programs per year. One of the problems with which we are faced arises because of the fact they are all individually made and are all different. It is not like producing automobiles or shoes, and I suggest the production of automobiles is a good example. An automobile is a complex mechanism but it is all set-up, the plans are made, you have ten models and you produce a great number of each model. In the case of television and radio programs each one is custom built and is the result of the idea of a creative person who must be given a certain amount of initiative and leeway in order to bring his idea forward so that it can be judged. Sometimes we do get into difficulty, but we try to have as much supervision as we can without going too far, so as not to smother the creative spirit of the producer. Generally our record has been, as I say, very good, because the bulk of these things we are discussing are small items which are not used and which were planned for insertion as part of a program.

Mr. SOUTHAM: I think you have answered quite well the point of my question, but it did not relate entirely to smothering the creative imagination of some of these producers, but was directed rather toward particular care being taken before the programs advance too far before being detected as being something which must be thrown out or discarded. We should have perhaps more supervision of this sort.

Mr. OUMET: That is usually done, but the times we get into trouble are those times when production is late, when the producers are late in their work, and when we have a deadline to meet and see them at the last minute.

The CHAIRMAN: You are next, Mr. Rondeau, followed by Mr. Prittie.

(Translation)

Mr. RONDEAU: I would like to ask Mr. Ouimet a question concerning the programme entitled: "L'homme devant la science" whose producer went bankrupt and has stated that you had paid the cost of the film in advance. Is it your general policy to pay in advance a great number of the films?

Mr. OUIMET: No, it is not our general policy, but in some cases we must do so in order to obtain good films. In other words, some producers turn out very good films but cannot finance the whole production, so we help them. The main objective of CBC is to obtain good programmes, and in some cases we must assume some risks in order to obtain a good programme. In general, we are quite successful; in that instance, after several years of work done by that firm, we were taken in for \$44,000, but nonetheless we hope that we will be able to recover part of that amount.

Mr. RONDEAU: It is precisely on your hopes of recovering part of it. Can you sell back to other firms those films which you decide not to show to the public, in order to recover part of the cost, and would those firms assume the responsibility of showing them?

Mr. OUIMET: In this case, it is not because we have decided not to show them; the films were not completed, and that is the reason why we could not show them.

Mr. RONDEAU: But in other cases where the films are completed and for lack of quality or some other reason, you decide not to show them, does . . .

Mr. OUIMET: In general, if we produce films which are not acceptable according to our standards, we do not think that we should sell them to others. Apparently, this practice exists in the business world, but in the field of programming, if we deem that a film is not acceptable by the CBC, we also think that it should not be shown.

(Text)

Mr. FISHER: What was that again? Mr. Ouimet, would you complete that last sentence in English.

(Translation)

Mr. RONDEAU: But, Mr. Ouimet, if I wished to purchase one of your films which you have deemed unfit to be shown in public, and if I am willing to reimburse you your costs of producing such a film, you are discharged of all responsibility? If I pay you for such a film, it is no longer your responsibility; it reimburses at least your costs, and the CBC is no longer responsible for it.

Mr. OUIMET: Nonetheless, it remains a CBC film, indeed it is.

(Text)

Mr. FISHER: I would like to know what you would do if one of these films won a world prize.

Mr. OUIMET: I do not think it changes the situation.

Mr. FISHER: No, I do not think it would.

The CHAIRMAN: Would you proceed, now, Mr. Prittie.

Mr. PRITTIE: Mr. Chairman, although I do not have a question on this section, before we get into the international broadcasting service facilities I would like to ask one question on the material which Mr. Ouimet presented this afternoon.

The CHAIRMAN: Yes, Mr. Prittie; you can ask questions on that now.

Mr. PRITTIE: Thank you. I am referring to the table showing the costs of operating radio and the receipts from advertising.

Mr. OUMET: Yes, I have it.

Mr. PRITTIE: I notice that your receipts from radio advertising sales amount to \$2,696,000 and operating costs in the amount of \$21,156,000. Has the corporation board discussed at any time the possibility of operating a completely commercially free radio system? I do not expect it in television.

Mr. OUMET: This has not been considered formally but it has been mentioned. This is a subject which might be considered.

Mr. PRITTIE: Thank you. I will have more to say about that on another occasion.

The CHAIRMAN: Mr. Hales, you are next.

Mr. HALES: My question deals with page 12 where it sets out programs completed and in process of production. In respect of CJBC radio station in Toronto, would any of this amount for programs completed and in process of production be set up to be used this year in converting this station to an all French station?

Mr. OUMET: I do not think there is anything in this figure that would apply to CJBC. Also, this applies to the 1961-62 and 1962-63 years.

Mr. HALES: I know I was ruled out of order on this, this morning and I am trying to get in order. But, I am not too sure how to get in order here.

The CHAIRMAN: You can always try, Mr. Hales.

Mr. HALES: I want to know the proposed cost of the conversion and what revenue you expect from that station. I think it is being changed over on October 1. If I were looking for these figures in respect of 1963, where would I find them?

The CHAIRMAN: I think that is the trouble, Mr. Hales; you would not find them there.

Mr. PRITTIE: Yes, I think he would. They would be in the total radio advertising receipts in this table. Is that not correct?

The CHAIRMAN: Do you mean if the radio station had been in operation—

Mr. HALES: Yes.

The CHAIRMAN:—in 1963, and, if converted, where you would find the figures?

Mr. HALES: Yes.

Mr. PRITTIE: I see. The receipts from their operation as they pertained to 1963 would be in these figures.

The CHAIRMAN: Perhaps Mr. Ouimet could answer where these figures might be found.

Mr. OUMET: The receipts for 1963 for all our stations are shown in the gross advertising revenue for radio and television for that year.

Mr. FISHER: But you could tell us what the revenue was from CJBC for last year.

The CHAIRMAN: For 1963, yes. That is a perfectly proper question.

Mr. OUMET: Yes, although we are getting into an area where our competitive situation might have offered some difficulty; but, now that we are abandoning CJBC, I imagine that would be all right.

Mr. FISHER: You are getting a rich French Canadian market in Ontario.

Mr. OUMET: No. The answer to this one is what we lose on revenue on CJBC—and we will because there will be very little revenue in the French language—we gain in the reduction in the cost of running the station because

in one case you had to program it especially—it was not off the network—while in the case of the French station, it will be running off the network. So, what you lose in revenue is completely compensated by what you make in the return of expenditures.

The CHAIRMAN: Are you asking to be supplied with information in respect of what the revenue would be from this particular station for the year 1963?

Mr. HALES: For the year 1963 I would like to know what the revenue and the cost of operation for CJBC were in 1963.

The CHAIRMAN: Is that available now?

M. HALES: I realize it will take some time to obtain it.

The CHAIRMAN: It could be made available.

You have a question, Mr. McMillan.

Mr. McMILLAN: I was wondering about censorship. Is there some group which looks after the censoring of ordinary films?

Mr. OUMET: You are talking about feature films, the old movies?

Mr. McMILLAN: Yes. Are they all seen first?

Mr. OUMET: They are always seen first and in respect of movies, as in the case of all other programs, we have to exercise judgment as to what we do and do not show. We avoid using the word "censorship" as much as possible. But there is certainly a selection that is being made.

(Translation)

Mr. RONDEAU: I am only concerned about the fact that my friend here asked questions concerning censorship. Can we ask questions on general administration immediately, or should we restrict ourselves to the text before us? Last year, we asked Mr. Ouimet questions on incidental matters which were not in the text.

(Text)

The CHAIRMAN: Well, I think so far as general censorship is concerned, this is not an issue before us. But, with regard to this question of programs, I do not think it is an unreasonable question to ask, if you could relate it, as Dr. McMillan did, to the year 1962-63. General questions for that year are quite acceptable. But, if I may say so, I do not think we are involved in the general question of censorship. I do not think this is part of the function of this committee which is examining the accounts of the C.B.C. But, if you want to carry on with general questioning related to this year, you may do so.

Mr. RONDEAU: I have a few more questions about these things, but I would like to retain them until the end of this report so I could speak to Mr. Ouimet about it.

The CHAIRMAN: There is a section 21 which deals with questions of organization and the recommendations of the Glassco royal commission. If your question is in order in other respects I do not see why it might not be put at that time. We will proceed with the film and script rights on page 13.

Mr. HENDERSON: Again we deal with another inventory item under this heading, "Film and script rights". This indicates the extent to which film and script rights were prepaid and therefore in the inventory category at the end of the fiscal year. As you will see, the prepaid film rights increased in the Quebec region by \$65,000, so that approximately 80 per cent of the 1963 figure was invested in that region as compared to a somewhat smaller figure but larger percentage at the close of the previous year. I go on to say how we were informed by the management that the reason for this large proportion of prepaid film rights in the Quebec region lies in the limited supply of French

language films available in Canada and the consequent intense competition encountered by the corporation in acquiring rights to these films. This condition has tended to increase the cost and has also made it necessary to acquire film rights in this region far in advance of the customary requirements of the corporation.

Mr. FRANCIS: I would like to ask some questions on this paragraph.

The CHAIRMAN: What we have been doing is that Mr. Henderson has been making general remarks on the whole section. Then, anything within the section itself is open for questioning. You follow Mr. Harkness on the question list.

Mr. HENDERSON: In addition to the inventory shown there for prepaid film rights of \$1,704,902, the corporation stood committed at the close of the year under contract to purchase film rights to a value of \$5,274,000. The corporation wrote off as a charge to operations for the year a total of \$137,129 in determining the inventory values of prepaid film and script rights at the year end. The comparable write off for the previous year was \$165,185.

On page 15 it is shown how the film rights represent for the most part single episodes of film contracts expired by the end of the year and not telecast because of the unsuitability of the program content, technical deficiencies or pre-emptions.

We then go on to say how one series was purchased in 1957 for the Howdy Doodly program which was cancelled before all the episodes were used. Episodes costing \$28,744 were included in the total write off of film rights amounting to \$73,478. By comparison, scrip rights totalling \$63,651 were written off because the rights had expired or the scripts were considered unsuitable.

We then give a listing of the larger items under that heading.

Mr. HARKNESS: These film and script rights are all things that you have purchased from outside people?

Mr. OUIMET: There are film rights and script rights—they are two separate things. They are all from outside people.

Mr. HARKNESS: So you produced none of these things yourself? They are all things you purchased?

Mr. OUIMET: Yes.

Mr. HARKNESS: What is the total of the amount of film rights and script rights you purchased against which you have these rights amounting to \$137,000 plus \$28,000 in the one year and \$165,000 plus \$63,000 in the other?

Mr. OUIMET: Film purchases and rentals for those two years—I have the 1963 figures before me—amounted to \$8,880,000. For the previous year the figure was not very much different from this. It is roughly the same.

Mr. HARKNESS: The total write offs against purchase which was around \$8 million were \$200,000 odd.

Mr. OUIMET: That includes the purchase of old feature films. I should explain to you why we do write off some of these. When you buy feature films you usually buy them in packages. There are occasions when you might buy a single film, but usually you buy a package. Some old films become available and they may be the vintage of 1958 or 1957. In that package you have some excellent films and you also have some films that are not much good. In order to get the excellent films you have to buy the package, and we have to write off some of those which are not up to standard or are not acceptable; they are just plain dull. This is one type of write off. Another type of write off is in the case of the syndicated film series. They are mostly from the United States, but this also applies to some of the British series or some of the French series. We may have a pre-emption and we buy enough films for 39 episodes, but there may be

a special event that happens on the night when we are going to show the twenty eighth episode. It may be some very important national or international event and maybe a special program has been prepared to go on at that time. This is what we call pre-emption, this displaces the film regularly scheduled. In certain cases we can show those films again, but in other cases it may break the sequence and may mean that the film is no longer usable, so you have to write it off. There are quite a number of reasons why a film may not be usable in that way.

Mr. HARKNESS: What about the script rights? You buy these in expectation that you are going to use the scripts to make something yourself?

Mr. OUIMET: That is right. We have to buy scripts ahead of time in order to have enough material for our plays or other types of productions, but usually for plays. You have them here.

There was a hospital and a science fiction series; also a "General Motors Presents" series which was the same thing as "Playdate" today. That is a big drama series; and we buy many of these scripts. We might decide after reconsideration that something better has become available and we may never play what we had originally intended to use. This is simply because something better has become available. But you cannot back down because you have to go ahead and produce those plays every week and you must have material with which to produce them.

Mr. HARKNESS: These scripts are for radio plays?

Mr. OUIMET: They are for radio as well as television plays.

Mr. HARKNESS: Were any of these scripts actually used to produce television plays, which were then scrapped?

Mr. OUIMET: No. In that case it would be shown as a write off of the whole program which never got into production.

Mr. HARKNESS: They would be under the previous heading that we were considering.

Mr. OUIMET: That is right.

Mr. HARKNESS: That is a question I was going to ask about; and if you put them into the amount written off under the program heading, these two figures which we have, it does not include salaries and wages of the people who were engaged in making them?

Mr. OUIMET: Mr. Harkness, would you please repeat the last part of your question?

Mr. HARKNESS: The \$115,000 which you wrote off last year, for programs completed or in process of production, would not include the things that you did yourself, such as salaries and wages of the people employed in making these things?

Mr. OUIMET: Yes, it would include full production costs; it includes the full production cost of these programs.

Mr. HARKNESS: And the salaries of the producers?

Mr. OUIMET: That is right, and the fees of the artists, the scripts, the make-up, the wardrobes, the rehearsal, the use of the cameras and tubes, this is full cost accounting.

Mr. HARKNESS: I see. Very well.

The CHAIRMAN: Mr. Francis.

Mr. FRANCIS: Eighty per cent of the total amount invested for prepaid film rights is for the French language network. I have difficulty following the explanation given. Is this a temporary situation? Is this acquiring rights ahead of time? Would it stabilize after you reach a certain level?

Mr. OUMET: Perhaps Mr. Davies would speak to this question.

Mr. DAVIES: The 80 per cent here refers to those which were prepaid. We have two classes; one for the French network, because of the supply situation, where there are more which are prepaid than in the other case; I notice the \$5,274,000 which is not yet paid will be paid for on telecast in the case of the Quebec network. This amounts approximately to 55 per cent; so therefore on balance over-all it is more related percentagewise.

Mr. FRANCIS: Might I be given a breakdown of the \$5,274,000?

Mr. DAVIES: I could provide it in just a moment.

Mr. OUMET: There are differences in broadcasting on the two networks because of different conditions. It is customary on the French network to buy film rights for more than one showing, because on the French network a film which is shown in the evening is usually shown again the next morning or the next afternoon, I believe. There are many differences in conditions of operation as well as supply.

Mr. FRANCIS: I appreciate it. I was just interested in why there should be so much money committed for prepaid films here, and I was trying to understand the reason for the breakdown of \$5,274,000. It is apparently on a different proportion.

Mr. DAVIES: Yes. The French network, from Montreal would involve \$2,400,000 of this total, while for Toronto it would be \$2,000,000. The balance is spread in small amounts between Halifax, Ottawa, Winnipeg, and Vancouver. Now the other thing is that there would be more usage in Montreal as well of the film series.

Mr. OUMET: They use more of their films in Montreal than would be used in Toronto because there is no equivalent in French to the syndicated series of films which you can get from the United States.

Mr. FRANCIS: I have had difficulty putting this together in my mind. Perhaps I should not even try. I understand the problem of the French network is that you have to produce a great deal more because of the supply situation and because your importing from outside is very much restricted. I appreciate that on the English network you can get material from American sources more easily. Is that why you have committed so much in advance for prepaid on the French network?

Mr. DAVIES: That is partly the reason; but I think it is also the question of supply sources. If you have five or six people ready to supply you through 20 distributors, that is a situation which is different from where you have only two. Therefore, you do the best you can with the contractual arrangements that you are able to negotiate.

Mr. FRANCIS: Apparently you buy a good deal more of this for the English networks, yet you spend more for the French network by way of prepayment. That is why I did not understand it.

Mr. DAVIES: If you added up the figures you would see that the Montreal total, inclusive of what may be prepaid, is \$3,000,000; while the Toronto total, inclusive of what is prepaid, would be \$2,200,000.

Mr. FRANCIS: You say that because you have to reach further in advance of the commitments?

Mr. DAVIES: No. If you want to tie up the rights for this one supplier, you may have to prepay them. Perhaps another supplier will accept payment at, or before, or even after the telecast. It is simply a question of competition.

Mr. FRANCIS: Competition with whom?

Mr. OUMET: In the case of English network suppliers there are more of them and more sources, obviously, than there are for French films.

Mr. FISHER: You also have some private network competition.

Mr. OUMET: Yes. I say yes, but I really should say no. I think you have some competition in Montreal which is not network; but you have a very strong private station.

Mr. DAVIES: May I also suggest that the prepaid rights indicate how much capital is tied up. It has nothing to do with your eventual expenses.

Mr. FRANCIS: The Auditor General said that this condition has tended to increase the cost. That is a direct quote from the Auditor General's report. But might I ask the Auditor General what it means?

Mr. DAVIES: He has said there is a limited supply of French films available in Canada, and this consequently indicates the competition which the corporation encounters in acquiring the rights of these films, and it tends to increase the cost.

The CHAIRMAN: Are you directing your question to Mr. Henderson?

Mr. FRANCIS: Yes. I wonder if Mr. Henderson would care to comment or elaborate on the difference between the costs per film? Is it because of a difference in the cost per footage, or because of a monopoly situation, or because of a supply situation? What does it mean?

Mr. HENDERSON: It is my understanding that in the acquisition of French language films in Canada there has tended to be a monopoly type of situation to the point where the corporation has encountered considerable competition in putting its hands on films which it wants. Therefore, in order to preserve its position in Quebec and on the French network it has had to lay out a considerable amount of money ahead of time to buy up the things that it wants. To the extent to which this may have resulted in the corporation having to pay more than reasonable prices for the films, I cannot say. Perhaps Mr. Ouimet could add something to that. But I do believe that it is because of the supply difficulty in this regard that they have tended to build up this very large inventory for the Quebec region. That condition has accordingly tended to increase the cost, and it places the corporation in a position where it has to carry a heavy inventory of these films way ahead. Is that not correct?

Mr. OUMET: I would like to add to your comments, Mr. Henderson. I believe it has tended to increase the cost. But the situation is better as of today than it was two, three, four, or five years ago. The monopoly situation is gradually being remedied. Competition though is still very keen. One thing which should be mentioned is that generally speaking the films available in French from France and from Italy, and dubbed in French, are generally of much more recent vintage than those released by American suppliers; and that has also tended to increase the cost. If we could get films of equally recent vintage from American sources, we would also show them, but we are not able to do it. So, these are added factors to keep in mind in considering the total picture.

Mr. SOUTHAM: Mr. Chairman, my question is related to the one asked by Mr. Francis dealing with film strip rights. On page 14 there is one specific statement:

We were informed by the management that the reason for this large proportion of prepaid film rights in the Quebec region lies in the limited supply of French language films available in Canada and the consequent intense competition encountered—

What I have difficulty in understanding is where this intense competition comes from, because as I understand it, the only market for these films is the market in Quebec. Who is providing the other competition?

Mr. OUMET: The intense competition comes from the fact that the supply of French films is more limited than the well known Hollywood films. Secondly, there is intense competition in respect of the limited sources of film with the other station in Montreal which uses the same films.

Mr. PRITTIE: Could you not get Mr. Malraux to obtain the films for you free?

Mr. OUMET: I am not sure we could get anything free.

Mr. SOUTHAM: It is a very interesting situation to find this competition when the market is so limited.

Mr. OUMET: I would not say that the market is limited. Our consumption of films on the French network is higher than it is on the English network. The usage of film in Montreal is by two stations, the C.B.C. station and the private station. There is the same situation in Toronto. Therefore, the competition is about the same in terms of users. The supply is more limited and, therefore, the total problem is more acute.

The CHAIRMAN: Gentlemen, would you like to go on and complete international broadcasting service facilities before we adjourn this afternoon?

Agreed.

Mr. FISHER: Is there any place, either in the annual report or anywhere else where you indicate whether you spend money on television in education?

Mr. OUMET: Well, as you know, we spend a great deal of money on school telecasts. We have many programs of an educational type. It would depend on your definition of educational television.

Mr. FISHER: Let us say school or university programs. There is nothing in your annual report.

Mr. OUMET: It is not shown separately.

Mr. FISHER: You do some broadcasting of this nature?

Mr. OUMET: Yes. As you know, for years and years we have done school broadcasts on radio and now do quite a number of school telecasts. We also do university telecasts.

Mr. FISHER: Why have you not bothered to show what any of this costs by putting any of it on the record?

Mr. OUMET: By the way, this is available in part in the information we have given today under children's programs and educational. However, there are other programs in other series which also might be considered educational.

Mr. FISHER: The point I would like to make to the Auditor General is that there is no way, in picking up the annual report, that one can get any idea of what is being spent for school or university television.

Mr. HENDERSON: That is quite true so far as the formal financial statements are concerned. Mr. Oumet stated that he is going to give consideration to putting in graphs, tables and figures along the lines you discussed this morning and, therefore, I think this would be exactly the sort of thing he could, perhaps, be expected to show, and also what he would want to show.

Mr. FISHER: I just wanted to make sure that the point was made.

Mr. HENDERSON: I think I explained this morning to your satisfaction why it does not appear in the statutory accounts.

Mr. PRITTIE: Do you receive any payment from the department of education in respect of your school program production costs?

Mr. OUMET: No. We divide the cost according to a formula. We pay part and they pay part. I do not know whether you could call this payment for production. We pay the indirect cost and they pay the direct cost of production.

Mr. PRITTIE: So, they are participating?

Mr. OUMET: Yes, they are participating.

The CHAIRMAN: Gentlemen, would you like to deal with international broadcast facilities?

Mr. HENDERSON: On page 15 there is reference made to international broadcast service facilities which the corporation operates on behalf of the government of Canada. The facilities themselves are owned by the government as distinct from the corporation. I think this was in accordance with an order in council of 1943. Always, along with the financial statements of the Canadian Broadcasting Corporation, there appears a statement showing the cost of the international service. We do not include that with our statutory accounts of the corporation, but you will find that the details are shown on page 26 in the 1963 report.

The expenditures of the service for 1963 net of their revenues earned was \$1,736,000, or \$31,000 more than the previous year. The expenditures are broken down between objects of expenditure.

Mr. FISHER: Twice in the last five years I have been lobbied in connection with threatened cuts or slashes in the international service. I have been lobbied as an individual member of parliament. Campaigns have been going on to make sure this service is not retrenched. I would like to know, Mr. Oumet, what have been the various changes which have led to these two instances, the threat or the intention to reduce the service or cut it down.

Mr. OUMET: Some years back I believe the treasury board, at the time of looking at our estimates, asked us to look at the possibility of reducing the total expenditures for the international service. As a result of this, there were talks with the external affairs and C.B.C. people and we came up with a recommendation which I think was accepted. There was a cut in the order of about 20 per cent. Then, this year or last year, there was talk of reducing the scope of the international service, but it did not come to any specific action.

Mr. FISHER: What I would like to know is who has the best judgment with regard to the amount which should be put into the budget for the international service; would it be you or the Department of the Secretary of State for External Affairs?

Mr. OUMET: I think we both have to do it, because in one case it is necessary to have the knowledge of the international situation and the particular need to reflect Canada in certain countries of the world, and, on the other side, you have the broadcasting knowledge, the knowledge of what is possible, what facilities are required, and the effect of any particular increase or decrease.

Mr. FISHER: The point I wanted to bring out is that if you really are going to come to grips with the intricacies of the problem in this field you need to have the external affairs people to comment or collaborate.

The CHAIRMAN: You are quite right. Actually, this aspect properly comes under the purview of a broadcasting committee. In the limited time we have, as you say, it is pretty difficult to come to an issue as to how much we should spend and how much we should not. I think we have to take these figures and any incidental questions may be asked. I do not think we can get beyond this. We certainly cannot get external affairs here in the time the broadcasting officials are here.

Mr. HARKNESS: What I do not understand is that the cost is put in here in your general balance sheet and in this report of Mr. Henderson as being \$6,279,000. In your statement on page 26 you reported the expenditures as \$1,736,000.

Mr. OUIMET: In one case it is the capital assets and in the other case it is the annual operating costs. On page 26 you have the annual operating costs.

Mr. HENDERSON: It represents the amount of money that the government of Canada has invested in these facilities—the transmitter at Sackville and that sort of thing, and I think the Radio Canada building in Montreal.

Mr. OUIMET: That is correct.

Mr. HENDERSON: It is shown on the balance sheet on both sides by way of keeping it to the forefront. The operating expenses are the subject of a separate estimate in the blue book; they carry a separate vote number. Accordingly, that is discussed at the time the estimates are considered.

Mr. HARKNESS: In the \$6 million is the \$1,736,000 included or is the \$6 million the total capital cost?

Mr. HENDERSON: This represents capital cost or the equity of the government of Canada in the facilities of the service, which facilities have always included the cost of the Radio Canada building on Dorchester street in Montreal. That may seem rather extraordinary when it is occupied by the Canadian Broadcasting Company itself, but it had its origins years ago and remains in that figure. Perhaps a good case could be made for moving it out—

Mr. HARKNESS: I would think so.

Mr. HENDERSON: —into the account of the corporation, but I do not believe that proposition has been opened up, has it?

Mr. OUIMET: No, not recently, but it has been discussed. It is one of those things that I think will be done whenever we come to grips with the long term financial problems of the corporation. I should mention that we pay rent to our international service for the space we use.

Mr. HARKNESS: That is where the \$400,000 of income comes in?

Mr. OUIMET: Most of it.

Mr. HARKNESS: This is another question I was going to ask. I was going to ask where the income came from.

Mr. HALES: Are the figures available for CJBC or will they be given at the next meeting?

The CHAIRMAN: The CJBC operating costs for 1963?

Mr. OUIMET: We will try to have them available tonight.

The CHAIRMAN: Having in mind the terms of the motion moved by Mr. Harkness and that so many people have indicated an interest on this last item, my proposal would be that we start this evening at eight o'clock with the special survey having in mind that this will be the last meeting at which we will have the officials with us. I think we can discuss this matter tonight. We will start at eight o'clock with the special survey which is contained on page 21.

Mr. HARKNESS: When will we deal with the capital expenditures?

The CHAIRMAN: That should follow. I am suggesting we start with the special survey. That is part of the motion. I suggest we start with that and get that over with first, and then we will have the rest of the evening in which to discuss the capital expenditure.

Mr. HARKNESS: I would suggest that it should be done the other way round. I would suggest that we deal first with capital expenditure because I am doubtful whether we would finish with the other in time to deal with capital expenditure this evening.

The CHAIRMAN: Perhaps the members will give some thought to it.

Mr. HARKNESS: I think we might deal with capital expenditure fairly rapidly.

The CHAIRMAN: It is for the committee and for you, Mr. Harkness, as you have proposed the motion, to decide the course we should take. In the meantime, the committee is adjourned until eight o'clock this evening.

EVENING SESSION

The CHAIRMAN: Gentlemen we have a quorum.

As you know, this is the last meeting at which we will have the benefit of the presence of the C.B.C. officials, and we still have some considerable area to cover. I suggested before adjournment that we turn immediately to the special survey, but in deference to the form of the motion moved by Mr. Harkness, in which he made a suggestion, and I think quite properly so, we might deal with capital assets appearing on page 16, and then move to page 21 covering the special survey, which involves that part of the motion dealing with the Glassco commission's recommendations, and then, if we do complete those two subjects, in the time remaining we will turn again to the other three items. I think the items to which I have referred are largely the items of value to the members of this committee and in respect of which the members have indicated an interest and desire to ask questions.

That being the case I am going to suggest that we now move to a consideration of page 16 dealing with the question of capital assets and then, on completion of our deliberation in respect of that item, we move to page 21 dealing with the special survey.

I will ask Mr. Henderson to make some general comment in respect of capital assets, after which I will ask Mr. Ouimet to make a preliminary statement, and then both gentlemen will be available for discussion and questions.

Mr. RYAN: Just before we move to that consideration I should like to ask for an explanation of something which looks a little out of the ordinary in respect of the international broadcasting service facilities.

The CHAIRMAN: Yes.

Mr. RYAN: Just before we move away from this item, I note at the fiscal year end, March 31, 1963, at page 5.2 of the 1963 public accounts, the 1963 expenditures are shown as being \$1,770,791, whereas in the Canadian Broadcasting Corporation annual report for the fiscal year 1962-63, at page 26, the net expenditures are shown as being \$1,736,108 for the fiscal year ended March 31, 1963. There is not much of a difference here, but there is a discrepancy.

The CHAIRMAN: Mr. Davies will comment in this respect.

Mr. DAVIES: The difference in this regard, sir, is due to the fact that the public accounts are on a cash basis and the international services accounts, as reported in our financial statement, are maintained on the same basis as those of the corporation, which are on an accrual basis. Therefore, the difference would be because of the net that had been accrued one year against the other.

Mr. RYAN: Thank you.

The CHAIRMAN: Mr. Henderson, would you care to comment in respect of the capital assets item appearing on page 16?

Mr. HENDERSON: Once again, Mr. Chairman, if members of the committee would turn to the corporation's balance sheet at March 31, 1963, they will

see capital assets shown there at \$33,797,724, and in the report I made I give some information regarding the nature of this item. The first reference, you will observe, has to do with the capital budget of the corporation which for the year ended March 31, 1963, was approved by an order in council of December 21, 1962. Under the Broadcasting Act the corporation is required to file an annual operating and annual capital budget, setting down its anticipated expenditures for each fiscal year ahead. You will observe here that the corporation did not spend its complete capital budget during the year ended March 31, 1963, and there was an unexpended balance of \$209,582 which, in due course, was refunded to the receiver general, the capital expenditure for the year actually having amounted to \$6,390,418.

If you look at the top of page 17 you will see how that money was spent in terms of the type of equipment.

I then go on to say that most of the increase is in construction in progress, and that is the largest figure in the table, and this represents costs incurred during the year on the consolidation of facilities in Toronto, Montreal, and Ottawa during the past four years. That is, through March 31, 1963 there had been expended a total of \$3,802,000 on these projects.

If you look at the balance sheet you will see there is a reference there to note 1 which is part of the notes to the financial statements. Right after the financial statements is a list of the notes to the financial statements, and note 1 states that the capital assets in the amount of \$61,850,364, that is the gross figure appearing on the balance sheet, included this sum of \$3,802,000 expended during the last four years in connection with the planned consolidation of facilities in Toronto, Montreal and Ottawa. Present estimates of the cost of current plans indicate the cost of consolidation of facilities at these locations to be \$83,058,000 of which, subject to the provision by parliament of annual appropriations for that purpose, approximately \$1,597,000 will be expended during the year ended March 31, 1964—that is the year that has just ended—and \$77,592,000—that is to say the balance—during the four years ending March 31, 1968. This means that the corporation anticipated having these new facilities completed by 1968.

This note has appeared on the corporation's balance sheet as an integral part of this statement for the several years; in point of fact, ever since the balance sheet of March 31, 1961, at which time as you will note my remark at page 17, it was estimated the cost of consolidation was going to amount to some \$73.6 million. Naturally, as time has moved on the figure has had to be revised and the pattern of spending has had to be revised.

The original costs in 1961 were approved at that time, as stated here by the board of directors on October 30, 1959, and submitted to the Minister of National Revenue and the Minister of Finance on November 6, 1959, in accordance with the provisions of section 35 (2) of the Broadcasting Act.

I then go on to refer to the note that I just outlined to you which shows that they presently estimate at March 31, 1963, that this over-all cost would be something in excess of \$83 million and that they expected the consolidation would be completed by the end of the 1968 fiscal year.

The next paragraph on page 18 refers to something we dealt with in my 1962 report, and that is the desirability of establishing and maintaining improved fiscal and accounting control over capital assets. This is something that has been long overdue in the corporation. Mr. Davies and the officers of his accounting department continue to be engaged in this work, and we are providing, what assistance we can render. This is a fairly large project but, nevertheless, as you can appreciate, a very important one. This is going to be more so as the corporation spends this money on its capital consolidation in the two big cities.

The CHAIRMAN: I was going to suggest that Mr. Ouimet might make a statement in respect of the entire consolidation program and then, having made his statement, both Mr. Ouimet and/or Mr. Henderson and his officials will be available for questioning.

Mr. HALES: Mr. Chairman, when will we have a chance to ask questions on page 16, under capital assets?

The CHAIRMAN: That is the subject we are dealing with at the present time.

Mr. Henderson has made his general statement. Mr. Ouimet is going to make a comment on the entire paragraph now and then we will be wide open for questioning by members of the committee.

Would you proceed, Mr. Ouimet.

Mr. OUIMET: Mr. Chairman, I think it would be helpful to explain our consolidation projects.

The planning and thinking of these projects were started at the time of the Fowler commission in 1955, and the estimates we had then for both Montreal and Toronto were \$36 million and \$35 million, for a total of about \$71.3 million. Now, that was nine years ago and the projects have not yet been started, except in terms of planning. Since that time the value of money has changed; the cost of construction has changed, and also the requirements have changed. We have to think about what will be required five, six or seven years from now.

In the case of Toronto, we were able to proceed faster than in the case of Montreal. In both cities we immediately looked for suitable sites. We tried to find something downtown in both cases but we were unable to find anything downtown at a reasonable price. However, we located in Toronto a property of some 33 acres, which we purchased in March, 1960. So, we have that property in Toronto at Don Mills. I should mention that at that time we had contacts with the city of Toronto and there was no proposition made by that city for any site nearer the centre of Toronto.

In the case of Montreal it took longer; negotiations with the city took several years. It was only at the beginning of last year that we entered into an agreement with the city of Montreal for the purchase of 25 acres of land downtown. In that case we obtained a definite proposal from the city, and the agreement, I believe, was approved by council in January, 1963. This agreement provides for the payment by the C.B.C. of some \$2 million on delivery of the property and then \$180,000 a year for 12 years, during which time though there would be no grants in lieu of taxes. This gives you an idea of the cost of the property.

Furthermore, the agreement with Montreal provides for the city to deliver to us by October 1, 1964, the land completely clear. The land has been expropriated and the buildings have been cleared. I see no reason why the city will not be able to turn the land over to us as planned.

The same agreement provides for the C.B.C. to start construction by October 1, 1965; that is, one year after delivery of the land, and to have by October 1, 1968, \$10 million worth of buildings constructed on that property. Now, that is the situation in Montreal.

To revert to Toronto, since we purchased our site in Toronto, which happened in 1960, the city has contacted us and now has made proposals to have us locate in the city of Toronto itself. We are looking at these proposals at the moment but no decision has been reached yet, and the city of Toronto has not been advised of what we are going to do because we do not know yet. In the case of Toronto, the engineering plans were made and completed, or practically completed, for the site at Don Mills. In the case of Montreal, the engineering is going ahead for the consolidation on the property that

we expect to own as of October 1 next, so we may be ready to call for tenders in time to start construction, as stipulated by our agreement with the city, by October 1, 1965.

The costs of these projects, which were estimated nine years ago at \$71.3 million together, or about \$35 million and \$36 million for Toronto and Montreal respectively, would be now in a rough way of the order of \$45 million, in the case of Toronto, and something like \$60 million in the case of Montreal. The reason for the differential is that in the case of Toronto it is mainly the change in the value of the dollar and the extra charges of construction, with some minor changes in requirements. So, it is \$35 million versus \$45 million. In the case of Montreal there has been a definite change in requirements because at the time we submitted our 1955 estimate to the Fowler commission this was at the beginning of television and we were running Montreal and Toronto pretty well parallel, with about the same load, although even at that time Montreal had a slightly heavier production load. But now, with Vancouver, Winnipeg, Halifax, Ottawa, Edmonton and other cities being able to produce English language programs for the English network, the total load of Toronto is less than the load of Montreal, where there is still only Montreal plus Quebec City which will be starting in about three or four months, namely October 1.

Mr. GRÉGOIRE: Why not Jonquière?

Mr. OUMET: We have no station planned in Jonquière at the moment.

Mr. PRITIE: Where is Jonquière?

Mr. FISHER: Yes, where is Jonquière?

Mr. GRÉGOIRE: On the Saguenay.

Mr. PRITIE: Is that in Canada?

Mr. FISHER: I believe they have an intermediate hockey team there.

Mr. OUMET: The possible contribution of Jonquière, however talented this city might be, does not compare with the possible contributions by Vancouver or Winnipeg to the English network. So, for that reason our requirements in Montreal have gone up as well as the cost of construction and the changes in the value of money. And this, in a nutshell, is the situation at least at the present time. There are two projects, one \$45 million approximately and one \$60 million for black and white television.

Mr. HARKNESS: Mr. Ouimet, I see that this entire sum of \$83 million which you have in the report was for the consolidation of these facilities in Montreal and Toronto. Is that right or was there anything else included in that?

Mr. OUMET: This might have included some provision for the Ottawa head office.

Mr. HARKNESS: Has this been completed?

Mr. OUMET: Yes.

Mr. HARKNESS: So that in the foreseeable future your requirements from the capital point of view, would be entirely for Montreal and Toronto?

Mr. OUMET: I have been talking only about Toronto and Montreal, but the Fowler commission report covered other cities, and our long term plans also cover the consolidation in Vancouver. We also have something to do in Halifax, in Winnipeg and in Ottawa, but the total cost there is much smaller.

Mr. HARKNESS: The \$83 million planning figure does not include any of those, does it?

Mr. OUMET: No, sir.

Mr. HARKNESS: On the basis of what you have just said, the \$83 million has become \$105 million?

Mr. OUIMET: Yes, and I should mention to you that until the project is reactivated and re-estimated we will not change the estimate because we have not any other that is better than the previous one. It is only recently that we have reactivated the Montreal project after we got an O.K. from the city of Montreal.

Mr. HARKNESS: It would be more than \$105 million, with the rising building costs and so on?

Mr. OUIMET: If the building costs increase, and it may happen, then it will be more. However, we are talking about the value of the 1964 dollar so that I do not see why it should be.

Mr. GRÉGOIRE: There are also taxes and construction material.

Mr. HARKNESS: What is the necessity for the expenditure of these very large sums for the consolidation of these facilities?

Mr. OUIMET: I have mentioned this. In the first place, in the city of Toronto our offices and studios are dispersed in I believe eight or ten locations. The reason I hesitate is that we have now consolidated some locations. We had 12 different offices last year and there was a time when there were 18. However, we have consolidated and we have been able to bring some of these together. In the city of Montreal we are dispersed in 22 different locations. This makes it not impossible, because we are doing it, but impractical to work with such a dispersal, not only in terms of the costs involved in having various specialists in different departments. We have producers in one building, announcers in another, accounting in a different building, make-up people in another, costumes in another, staging in still another place and studios in still another location. It is costly, but more important than that, it makes it impossible to get a really unified operation and to get the best out of our resources. That is why we have to consolidate. I might say furthermore that we are entering a stage where our equipment will have to be replaced in large part. More than half of the costs are equipment costs. If we replace the equipment in our present dispersed condition, it will have to be replaced again later when we consolidate. So it is very important to time the replacement of equipment to coincide with consolidation.

Mr. HARKNESS: How much of these costs of the \$60 million and the \$45 million respectively for Montreal and Toronto are actual building and construction costs? You have just mentioned the fact that a large proportion are equipment costs.

Mr. OUIMET: About 40 per cent roughly are building costs.

Mr. HARKNESS: In both cases?

Mr. OUIMET: In both cases.

Mr. HARKNESS: And the remainder is for equipment?

Mr. OUIMET: Yes.

Mr. HARKNESS: What happens, under these circumstances, to your present equipment? Do you just scrap it?

Mr. OUIMET: No, but keeping in mind the fact that we are stretching its useful life as far as we can before we can consolidate, much of that equipment will be ready for a write off. We rate our equipment for television for a period of 10 years. Much of that equipment was bought in 1952, and the maintenance costs are starting to be high. We are having trouble in keeping certain of the equipment on the air—although I am not speaking now about the transmitter.

Mr. HARKNESS: What is the cost of the rental in these two locations at the present time?

Mr. OUMET: It is over \$1 million in Montreal. I do not know about Toronto offhand but we could provide a figure for you.

Mr. HARKNESS: Have you any estimate of what the heating, the lighting and the general maintenance costs would be after you get these two headquarters?

Mr. OUMET: Yes. The heat is not a very great problem, but the light is because we have so much light that it heats the studios. So much light is needed for the operation that our problem is to cool the studios rather than to heat them. However, the light is costly; the light bill is the same where we are as when we move.

Mr. HARKNESS: There is also the matter of taxes or of payment in lieu of taxes.

Mr. OUMET: Yes, although in Montreal we have I think a very reasonable arrangement both from the point of view of the city and from the point of view of the corporation with the 12 years of payment for the purchase of property during which we will be exempt from payments of grants in lieu of taxes. I do not know what we will be able to do with the city of Toronto eventually or at Don Mills.

Mr. FISHER: Is it still "or"?

Mr. OUMET: Yes, it is still "or".

Mr. HARKNESS: These are very large sums, and having some acquaintance with the real estate business I would be doubtful whether you would not be better off to continue renting rather than to spend all this money on putting up expensive buildings and having all the maintenance and operation costs to look after. In actual fact, as you are probably aware, a very large number of big commercial corporations at the present time no longer own their own premises; they find it much cheaper to rent rather than to own them and to have that amount of money tied up.

Mr. OUMET: Has this not something to do with tax arrangements which do not involve us? We are not doing this in order to save a lot of money; we are doing this because one cannot operate efficiently with production forces dispersed in 22 different locations. It is a very difficult operating arrangement and it has to be corrected eventually. I think this is the right time to do it because our equipment will have to be replaced anyway and gradually we will be duplicating expenses.

Mr. HARKNESS: What I am afraid of is that you are going to run into considerably increased expenditures. That is why I am asking all these questions.

Mr. OUMET: I must give you the complete picture. I have to bring in colour television. We are going to be faced with colour within the time that it will take to put these buildings up. Our present dispersed studios cannot be refitted for colour, and I think that all these factors merge together to indicate that this is the time to do it.

Mr. HARKNESS: As far as the money for these two big complexes is concerned, I know this report says, "subject to appropriation by parliament" but I note that in this year's estimates there is provision for a \$14 million loan to the corporation for capital expenditures.

Mr. OUMET: This is for the consolidation requirements and for other projects.

Mr. HARKNESS: Under the \$105 million?

Mr. OUMET: It is for all our projects. The government has decided that prior to approval by parliament—because it has to go to a vote—it would finance our requirements as loans instead of grants as it has done in the previous years.

Mr. HARKNESS: How do you propose to pay back these loans?

Mr. OUMET: We propose to pay back these loans from our income which will in great part be from public funds and in a lesser part from commercial revenue.

Mr. HARKNESS: In other words, how are you going to pay the interest on the loan?

Mr. OUMET: The same way.

Mr. HARKNESS: In other words you are going to get a loan from the dominion government to build these things, then you are going to get a grant from the dominion government with which to pay the interest, and then you are going to get a grant subsequently to pay off the capital.

Mr. OUMET: It has been suggested to us that in that way our books would show a more accurate picture of our true cost. Since we are in the hands of the authorities who provide the funds, I think this is a matter really not for the corporation to discuss, to defend or to support. I think it is something for the government to deal with.

Mr. HARKNESS: Perhaps then I had better ask Mr. Henderson who, as Auditor General, audits all these accounts, what he thinks of this type of financing which, quite frankly, I must say, seems to me to be ridiculous. You make a loan to a corporation, and then make a grant to it with which to pay interest on that loan, and then some time later you make it a grant with which to pay off the capital. Is that a reasonable proposition at all?

Mr. RONDEAU: It is the government which is doing it.

Mr. HARKNESS: We are here as a public accounts committee, and whether the government loans it or whatever they are doing, it is our business to inquire whether they are spending the taxpayer's money properly or not.

Mr. HENDERSON: This particular proposal you mention is at the present time I think contained in the estimates with which parliament has not yet dealt. Like you, after reading it in the estimates, I thought it to be a rather remarkable exercise in financing.

Mr. HARKNESS: That is a euphonious way to put it.

Mr. HENDERSON: I would not wish to comment on it in any detail until it reaches my desk during my examination of the year in which it will occur, because that is the way in which I operate, as you know. I have had a word, as a matter of fact, about this proposal with the secretary of the treasury board and with the deputy minister of finance who have been good enough to promise me some details of the thinking underlying this proposition. And I think, in fairness to them, I would wish to defer any comment until I have had an opportunity to learn the reasons prompting the proposal.

Mr. FORBES: Who formulated this type of financing? Was it done by the Department of Finance?

Mr. HENDERSON: This would have its origin in the treasury board and the Department of Finance, I think. Would that be right?

Mr. OUMET: I believe that this is the origin of it. I might say that there were periods in our history when we were financed by loans in this manner before.

Mr. FORBES: In other words, the treasury board suggested this method of financing?

Mr. OUMET: In the last few years there have been a number of suggestions made with respect to financing. Two or three years ago we heard a great deal about lease-back possibilities and to have construction built by entrepreneurs outside, for which we would pay rent. Then, more recently, the loan project was put forward, and we have no objection to that method of financing. I can see one advantage, that it does show as an expense the cost of the money supplied to us, because it appears as an operating expense.

Mr. HENDERSON: If you are going to borrow money, you should be expected to pay for the cost of getting that money. As the auditor I am naturally interested also to know where the income that is derived from such a loan will appear in the books.

Mr. FORDES: Is there any other crown corporation being financed in this way?

Mr. OUMET: I really have not checked to see whether there are others. Perhaps Mr. Henderson would know.

Mr. HENDERSON: If I may answer that question, there is, and we shall have an opportunity in this committee to discuss it again when that situation arises. I refer to the national capital commission in my 1963 report which you have before you, and you will see my comments on this rather similar type of approach. If the approach which will be brought to the Canadian Broadcasting Corporation is going to be the same, then it is a reasonable assumption that I might have a similar comment to make. But I repeat that I am without the benefit of knowing the underlying reasons for this exercise, and until I know this, I do not feel that I should express any further opinions on it.

Mr. HARKNESS: Mr. Chairman, I shall be just a minute. I would like to make one further comment. This seems to me to be a most bizarre method of financing, because to me at least it would tend to give the public accounts and the cost generally an incorrect bias, or to give us generally a wrong picture. I think this is something that we should perhaps have the deputy minister of finance or the Minister of Finance come and explain to us, not only in connection with this matter but also in connection with the national capital commission's system of financing in which something along this line appears, and which the Auditor General reported upon unfavourably in both of his last two reports.

The CHAIRMAN: Mr. Bryce will appear before us on July 21. Included in the subject matter which we have down, and which we hope he will deal with, will be financing in respect of the national capital commission. That is the same program, and I assume he will be prepared to go from there to the C.B.C.

Mr. FISHER: And what about the C.N.R.?

The CHAIRMAN: We do not have the C.N.R. set down.

Mr. HENDERSON: When the public accounts committee brought down its fourth report in 1963, after Mr. Bryce appeared before the committee in regard to the national capital commission, the committee supported the point of view I expressed and it indicated its hope that here would be a change in the method of financing the N.C.C. I mention this because you reached that conclusion last December when issuing your fourth report.

The CHAIRMAN: I have Mr. Hales, and then Mr. Rondeau.

Mr. HALES: My question has to do with the statement at the bottom of page 16, and Mr. Henderson may be able to enlarge on it. It says that a book loss of \$48,983 was experienced on the disposal of capital assets which originally cost \$194,385, which sold for \$25,011. Perhaps we might have some explanation of this.

MR. HENDERSON: Indeed. The corporation provides depreciation for its assets at standard rates just like any other business. These capital assets originally cost \$194,385, but they had depreciated to the extent of \$120,391; and when their usefulness expired, the corporation disposed of them. Accordingly they were resting on the books at a figure of \$73,994, and, as you will see, they were able to realize something slightly more than one third of that figure when it came to disposal. I do not know precisely what the estimates were, but this is orthodox accounting treatment. Perhaps it is not unreasonable, if they were able to realize $33\frac{1}{3}$ per cent of the figure which they stood on the books.

MR. HALES: I am not questioning that. I am interested in knowing what were the capital assets and how many years depreciation this represents.

MR. HENDERSON: I do not know whether or not Mr. Davis has that information.

MR. DAVIES: I do not have the details, but against the technical equipment of \$194,000, the laid down cost amounted to \$163,000 of which there is depreciation of \$95,000, leaving a book value of \$68,000. There was office and general equipment of \$16,000, depreciated to \$12,000, and \$15,000 in cars and trucks depreciated to \$13,000.

MR. HALES: How many years of depreciation?

MR. DAVIES: This would represent some fairly long term. The technical equipment, for instance, is depreciated over ten years, and this sort of thing. There is a very tight review on all this. Whenever it is decided that any item of equipment is to be scrapped or traded in, then a complete report goes in, in a number of copies. This is approved by all persons concerned right up to the top of the corporation.

(Translation)

MR. RONDEAU: Mr. Ouimet, this morning I asked if I could obtain the list of the employees who earn such salaries. You replied that you would have this information this afternoon. I understand that it would be too long to read it here, but if you have it, this information could be put in the record.

MR. OUIMET: Mr. Rondeau, I do not have such a list, and furthermore, I do not think that I gave that answer. I think I said in a general way, at the beginning of the afternoon that I realized that some members of the committee wished to obtain more information and that we would attempt to furnish more in our next annual report.

MR. RONDEAU: I understand you replied that we may ask questions and that you are willing to give us information. In effect, those questions waste the committee's time, and if this information were in writing, we would not ask so many questions. We would have that information, and it would be more interesting for us to know the number of your employees, their salary range and the fees they may receive. In this regard, we may ask you what advertising firms deal with the CBC and what is their individual amount of business? Those statistics may be of interest to us, at least in the matters we wish to know. I understand that it would be very long for you to give us all this information in this committee, and that is why we would ask you to put it down in writing next time.

MR. OUIMET: I do not want to promise too much, Mr. Rondeau. When you ask for business figures with agencies, we enter into matters dealing with competition among those agencies. Even if our yearly turnover is but \$30,000,000 we must nonetheless follow the business requirements and methods.

MR. RONDEAU: Do you object to revealing the salary ranges?

MR. OUIMET: We already gave the salary ranges; I do not object to that.

Mr. RONDEAU: That is done in the budget of the federal government; so many employees receiving such or such salary; so many below \$6,000; so many from \$6,000 to \$8,000; so many below \$20,000; so many receiving \$35,000, etc.

Mr. OUMET: Allow me to think it over before I answer. We all talked about that matter this afternoon, and I quite realize the problem. It is a matter of giving the members more information, but I must be careful not to create other problems in other fields.

Mr. RONDEAU: We are not asking for the names.

(Text)

The CHAIRMAN: I think Mr. Ouimet made it plain this afternoon that there were specific salaries of certain individuals which he did not feel he would be able to disclose. This is a matter which we have not yet decided, but I would suggest that between now and the end of the meeting, Mr. Rondeau might be good enough to make a list of the information he feels he would like to have. Then he might discuss it with Mr. Ouimet to ascertain at that time the particulars which Mr. Ouimet feels he is free to disclose.

So far as we as members of the committee are concerned, I do not think we are in any better position than are the members of the house when particulars are asked for on written questions or for production.

If you detail the information you desire and then discuss it with Mr. Ouimet and myself, we will see to what extent he feels free to disclose it. Then if you are not satisfied, it will be a matter for the committee to decide.

(Translation)

Mr. GRÉGOIRE: Mr. Chairman, when I raised the issue, I did not wish to obtain the names of individuals. There is no question of obtaining information which could be confidential. The only question is—we were told that the CBC had a personnel of 8,000 employees, and that its pay list amounted to \$44,000,000. The only information asked for at that moment by Mr. Rondeau is one which is given by all other federal departments, that is, the number of employees—their number only, without mentioning names, addresses and telephone numbers who are in such and such salary scales. The president of the CBC can give us that information without revealing any secret, without having to face any competition or assisting any competitor, because he is not revealing the fees paid to the producers or the salaries of the technicians. We do not even wish to know the duties corresponding to the various salaries, but only the number of employees in each category of salaries.

(Text)

The CHAIRMAN: Mr. Grégoire, I think I understand. All I suggest is that we do as we would in the house if a motion were to be made. Between now and when we conclude the meeting, if Mr. Rondeau would put in writing in the form of a motion the matters on which he wishes to be informed, then we will ask Mr. Ouimet before he leaves whether he feels he is in a position to furnish this information, or ascertain what information he feels he can furnish. If he has any legitimate objection he can state it, and then it is for the committee to decide in the same way it would be for the house to decide if this were brought up in the house.

(Translation)

Mr. GRÉGOIRE: Beforchand, it might be preferable to ask Mr. Ouimet if he is ready to give us this information. Then, the objections will not hold.

Mr. OUMET: I believe we gave that information to the committee in 1961.

Mr. GRÉGOIRE: Then you would not object to giving them again this year?

Mr. OUMET: I wanted to think about it for a while, but you are not allowing me much time.

Mr. GRÉGOIRE: Then, if you already gave them, why could you not give them again?

(Text)

The CHAIRMAN: Mr. Grégoire, we are departing from our proceedings now. I have made a suggestion.

Mr. GRÉGOIRE: But he is ready to answer it.

The CHAIRMAN: I suggest we carry on with our proceedings. We are now discussing the capital assets. Will you put this in the form of a motion, Mr. Rondeau?

Mr. GRÉGOIRE: There is no necessity to put forward a motion; he is ready to answer.

The CHAIRMAN: I think it is necessary to put it forward in a motion, and you may make a statement of the items in respect of which you wish to be informed.

(Translation)

Mr. RONDEAU: It is because the questions I would like to ask of Mr. Ouimet will not be in order.

(Text)

The CHAIRMAN: You are dealing with capital assets?

Mr. RONDEAU: No. I will come back to this.

The CHAIRMAN: Mr. Cardiff.

Mr. CARDIFF: Mr. Ouimet stated he had acquired 35 acres of land in the city of Toronto, or on the edge of the city of Toronto, and also 25 acres of land in the city of Montreal. This would be very expensive property I would expect. Why do you need that much land? As I am a farmer I know exactly what is 25 acres of land and I know exactly what is 35 acres of land. Why do you require that much land?

Mr. OUMET: Because the size of the buildings and of the shops that we have to build, and the storage is quite considerable. In the plans we have for Toronto we are actually using some 14 odd acres of land; and that is not counting the parking and the land around it. There are 14 acres of roof. It is because we are building horizontally that we need so much space. There are many advantages of building horizontally instead of vertically when one is dealing with studios. There are advantages to be obtained from horizontal buildings pertaining to proper insulation between studios. When one is building offices one can build in height, of course, so there will be a combination of fairly high rise buildings for offices and very flat one-storey or two, three, four or five-storey buildings, depending upon the size of the studios themselves. We cannot put studios over one another in television because of the cost.

Mr. CARDIFF: How much land have you in Ottawa?

Mr. OUMET: In Ottawa we have something like ten acres of land.

Mr. FORBES: Is that sufficient for the Ottawa project?

Mr. OUMET: Yes, this was for the head offices, and we are using only a portion of the land. That was a parcel of land which was made available to us at that time and the land around the buildings is treated as a park, therefore the two are not comparable because the total acreage the building itself takes is very small. I do not know the actual acreage but it may be an acre or two.

The CHAIRMAN: Is that all, Mr. Cardiff?

Mr. CARDIFF: Yes.

The CHAIRMAN: Mr. Francis.

Mr. FRANCIS: My questions have been answered, Mr. Chairman.

The CHAIRMAN: Mr. Fisher.

Mr. FISHER: In 1961, Mr. Ouimet, you had this to say—and I want to read a paragraph to you which I think you will find is relevant:

Now, there are other important reasons why these projects—
These are your words and you are referring to the Montreal and Toronto projects:

—should not be delayed. Our Toronto project is already in relatively advanced stage of engineering planning and design and the necessary property has been purchased. In Montreal the situation is not the same. We are still negotiating there for a suitable location. Engineering consultants for these projects have been engaged several months ago. Also, our own engineering and architectural staffs were enlarged to undertake the extremely complex and extensive planning and design necessary for projects of this kind. To stop this work now for any length of time would, in my opinion, involve a considerable loss of money. I do not know how much, because it would depend on how long the interruption lasted; but if it lasted for any time, the loss could be several hundred thousands of dollars. It might be more accurate if I said some hundreds of thousands of dollars. I have in mind a figure in the order of \$300,000.

Did this loss actually take place?

Mr. OUIMET: I think so in the case of Toronto. I think we will have to make considerable revision of our plans. The revising of detailed plans ready for specifications is a very costly process.

Mr. FISHER: When it was decided that you were not to go ahead with these projects several years ago, did you make any cut down in the engineering and architectural staffs?

Mr. OUIMET: Yes, we did—or we did something else instead and did not use these people, obviously, for those projects. I have not the exact figures of engineering for the past six or seven years, but I remember that we changed considerably our personnel and their assignments during that period. I know we had to gear up again when the Montreal project got started.

Mr. FISHER: From what you said earlier, Mr. Ouimet, it would appear that there has now been an inversion in terms of the readiness for development in the two cities. In 1961 you told us that Toronto was in a sense well ahead: and now the Montreal project seems to be well ahead; it is near realization.

Mr. OUIMET: Yes, in the sense that we are bound by an agreement with the city which stipulates that we must get started by October 1, 1965, while in the city of Toronto we have no agreement with anyone to start by any specific date.

Mr. FISHER: Do any of the expenditures or things upon which you did not spend in the past have any relevance to the difference in the situation between Toronto and Montreal?

Mr. OUIMET: Could you elucidate your question a little? I do not understand its meaning.

Mr. FISHER: Three years ago I assume the Toronto project was much closer to realization than the Montreal project, but then a damper was put on that project, as I understand it, as a result of government policy. A damper was put on the projects; is that correct?

Mr. OUMET: Yes, as a result of the fact that no money was made available.

Mr. FISHER: Now I understand that you are planning to go ahead, and I assume you have had an undertaking from the government that you should go ahead. Is that correct?

Mr. OUMET: We had an undertaking from the previous government.

Mr. FISHER: Very well. Has your spending program of the last two years any relationship at all to the fact that there has been this switch which has brought the Montreal project closer? There must be more to it than the fact that you have concluded a land deal in Montreal.

Mr. OUMET: Oh, yes, we have gone ahead with the engineering in the Montreal project, and we are right in the middle of it. Money was provided in the estimates for 1963-64 and also for 1964-65 to deal with the costs of the engineering of these projects. The money is not provided completely in these projects, but it is provided so we can do the engineering and do it to the point of calling for tenders.

Mr. FISHER: As I recall, in 1961 you said the Toronto project was already in an advanced stage of engineering and design.

Mr. OUMET: Yes, and that was finished shortly after, and the plans were then put on the shelf. Now, a number of years later, and looking ahead again, we estimate that we will have to revise the plans to a certain extent.

Mr. FISHER: Has there been any consideration, in regard to spending in Montreal by the board of directors of the Canadian Broadcasting Corporation, given to the difficulties and problems current in the present political situation.

Mr. OUMET: No, we are dealing with the requirements of the national broadcasting organization, and I do not think these considerations would come into the thinking of the board.

Mr. FISHER: I wanted to turn to something else in terms of the capital program. This is the question of an extension of service. In your capital budget during the last three years have you ever brought a proposal before the treasury board that they should give you a special lump sum to clean up the main backlog of television coverage?

Mr. OUMET: I do not think that we have ever put before the treasury board a formal proposal of this type, but I recall discussing this with officials of the treasury board, and with our minister, as a possibility at various times. Then, by the time we get to estimating generally, the situation from the point of view of money has tightened up and everything has had to be cut a little bit, and we never put forward an accelerated plan of coverage.

Mr. FISHER: Mr. Henderson, when you are examining the expenditures and the spending in the extension of services, is it possible to get any indication of the per capita formula that the C.B.C. talks about in terms of costing the various extensions? Does that become part of the record that you examine?

Mr. HENDERSON: We may have seen the calculations, Mr. Fisher, but we would be concerned with watching the correctness of the expenditure rather than what I would describe as internal reasons for the expenditure.

Mr. FISHER: Suppose for example during the years that are under record here the C.B.C. extended television service to the Kenora-Dryden area—and I believe this past year there would be some money assigned that you would at least have looked at in respect of the development of television service—or

perhaps in respect of the Fort Francis area, would you see any specific notation in the accounts regarding the relationship of these costs to the formula about which the C.B.C. talks?

Mr. HENDERSON: The formula that we would adhere to would be the budget. That is to say, the budget stemming right from the capital budget that is approved by the treasury board.

Mr. FISHER: The point I am trying to get at is this per capita formula and its application to projects, something which is in a sense outside your domain? Is that right?

Mr. HENDERSON: That is right, sir.

Mr. FISHER: The point I am really trying to make, Mr. Chairman, is that this is another item I should like to see brought within the scope of the annual report as part of the report to parliament. The reason I make that statement is the fact that there is no way that I know of by which we can check the relationship of these figures to see whether there is any acceleration or deceleration whichever the case may be, yet the C.B.C. does base its spending program on extension of service upon this formula.

Mr. OUMET: Mr. Fisher, we will see what we can do to provide more information in respect of this question. I am frankly concerned with the public formulation of long term plans of this respect, because all kinds of things can happen after you talk about the possibility of a station somewhere three years from now. The population situation may change and some other city may get priority. I think we have to handle this situation very carefully, although I think we can attempt to provide more information than we have provided in the past, and that has been rather limited, except when this matter has been taken up by parliamentary committees, at which time we have given quite a bit of information.

Mr. FISHER: The point I am really trying to make is that this is a very important part, in a political sense, of your spending program, yet it is not something that is really surveyed or analysed by the Auditor General.

Mr. OUMET: Yes. I am just wondering about its effect because I do not know what the Auditor General thinks about this, and I do not know whether he wants to be involved in the area of priority of extension of service in the country.

Mr. FISHER: I am not suggesting that the Auditor General should be involved, but if there are reasonable doubts in respect of that extension of service, on the part of parliamentarians, surely there should be some agency or forum through which this can be examined and details obtained.

Mr. HENDERSON: Mr. Fisher, I should think, as Mr. Ouimet himself has suggested, it would be possible for the corporation to insert some tables or graphs of some description showing how the capital dollar has been spent. Perhaps in his director's report he could also give some indication of the direction in which this is going to be carried in the future. I think that is the sort of thing he has in mind. Heretofore nothing of this sort has been included in the corporation's annual report. To my way of thinking it would be an improvement to have something like this in the report, and I think that is what Mr. Ouimet has suggested may be done.

Mr. FISHER: With regard to this extension of services lump sum idea, have you the capacity in terms of your cost accounting, in respect of extension of service projects, to put such a figure in your budget, or arrive at such a figure, given the conditions of 1964, to put them in your budget?

Mr. OUMET: I would say yes, in a rough way, because until each one of the projects is engineered it is only a fairly rough estimate that is involved. However, in total the estimate would still be fairly accurate.

The CHAIRMAN: Have you concluded your questions Mr. Fisher?

Mr. FISHER: Yes.

The CHAIRMAN: You are next on my list Mr. Pigeon.

(Translation)

Mr. PIGEON: Mr. Chairman, may I ask the unanimous consent of the committee to come back to page 12 of the French report as I was detained this afternoon while addressing the House. I would like to put this question to you, Mr. Ouimet: concerning cars and trucks, office supplies, stationery etc., are you inviting public tenders to be printed in the leading papers?

Mr. OUMET: Generally, in calling for public tenders we do not follow the government's procedure, but we nevertheless call for tenders.

Mr. PIGEON: Yes.

Mr. OUMET: We put in our request to some 4, 5, 6 or even 8 firms, in most cases to those who, we feel, may be interested and could offer us the required quality. We have a similar method to reach building contractors; in other words, we do not call for public tendering by advertising in the papers. A number of firms wishing to tender send us a request to do so and, unless they are automatically excluded if we think they cannot meet our requirements, we invite them to tender. This way, we generally receive tenders from five, six, seven, eight and sometimes even from ten and twelve companies.

Mr. PIGEON: In other words—

Mr. OUMET: I am broadly speaking, if it happened that certain instances, say small scale construction work, would involve costs amounting to approximately five thousand or ten thousand dollars, we would then ask only two or three firms rather than asking half a dozen or even a dozen to quote us prices.

Mr. PIGEON: I am asking you this, Mr. Ouimet, with regard to the purchase of cars and trucks because you do not call for public tenders by way of the papers and, in such cases, CBC or any other cities such as Montreal and Toronto are allowed to call three or four suppliers for tenders, according to their choice. Is that what you mean?

Mr. OUMET: We ask price quotations to three or four companies, in most cases for cars of different brands.

Mr. PIGEON: But finally, how do you manage to choose between these three or four people, especially in cities like Montreal, Toronto, Vancouver or Halifax. You could find there some fifty or even a hundred dealers in cars or trucks of different makes and this matter of choice may become a very difficult one for the authorities involved for the CBC to take a telephone directory and, with eyes closed so to speak—

Mr. OUMET: Mr. Pigeon, we do not buy dozens of cars at a time. We may buy one in Montreal and perhaps another in Toronto. Maybe a year later, we buy one or two more cars.

I think we must choose the method best suited to solve the problem. If we had to buy fifty cars at a time, then we would have to proceed differently, but up to now, we did not have any difficulty. We just try to get the best prices and, as you know, finding out what are the best prices for cars is easy enough.

Mr. PIGEON: I would like to ask a question to Mr. Anderson, the Auditor General of Canada. If a Crown Corporation, and keeping in mind the public interest—and here I do not put any blame on Mr. Ouimet whom I consider as an honest and conscientious man doing his duty as he has to carry heavy responsibilities, and who, I know, is devoting his time for the good of the people—but, as I already mentioned, Mr. Anderson, with the public interest in mind,

would you not consider it preferable for crown corporations, and amongst them the CBC, to call for public tenders by means of newspaper advertising, say not for any hasty purchase, as for example if such a Corporation would need a chair or some piece of furniture, but for all bulk purchases? I mean to do so in the same way as, in your experience, Mr. Anderson, this is done by all departments?

(Text)

Mr. HENDERSON: Mr. Pigeon, it is difficult to make a sweeping or generalized statement on this.

Crown corporations are set up to operate with the same freedom of action as the large private corporations are in our country, and you do find the procedure which Mr. Ouimet has outlined existing today. It always has existed that way in most of our crown corporations. The purchasing agent secures competitive prices. It is perfectly true that it is not as independent a basis as it would be if he advertised for tenders. I think you would find if they were purchasing substantially or in great quantities, involving a lot of money, doubtlessly they would put it out for tenders because of the responsibility attaching to a large purchase. But, for the average kind of buying they do not do that; instead, they have a purchasing department. This is presupposing that management is responsible and is able to contain and handle this procedure. That has proven to be the case in most of the big corporations of our country and it has proven to be the case in our major crown corporations. I think you will find it is in the case of the C.N.R. and you will find it in T.C.A. On the other hand, if they are buying very expensive equipment in large quantity you will see them calling for tenders.

Mr. PIGEON: Does the same thing apply in England?

Mr. HENDERSON: Yes. The departmental process generally down through the years has been as described, to call for tenders. You have the situation where the Department of Public Works or the Department of Transport are buying things by the dozen or by the gross. There was the case of incandescent lamps, which the Department of Public Works buy for the entire government, and there was this question of identical tenders, which I have mentioned in my report, where they obtained tenders which came in at identical prices. But, I think the question you raise is responsibly handled, if I may say so, from my experience with our crown corporations, and I do not see any problem here.

(Translation)

Mr. PIGEON: Mr. Ouimet, it must be quite difficult to choose one or several architects or engineers for a project to be performed for the CBC, since the holders of engineering degrees are competent persons. Then do you apply to the Engineering Association, or—

(Text)

The CHAIRMAN: Well, Mr. Pigeon, we have unanimous consent to revert to this one issue. I think you would have an opportunity to put your question when we are discussing the final subject, that of special survey, which outlines the organization, establishment, personnel, and so on.

I notice that Mr. Ryan is the last one who has a question on this item, and then we will move on to special survey.

Mr. RYAN: Mr. Chairman, may I return to the capital assets section at page 17. It is stated that the sum of \$3,802,000 has been expended on consolidation projects in Toronto, Montreal and Ottawa. I wonder if we would have the figure for Toronto alone.

Mr. HENDERSON: I would have to ask Mr. Davies if he knows what portion of this \$3,802,000 is in respect of Toronto.

Mr. DAVIES: I am sorry but I do not have the details of this.

Mr. RYAN: Perhaps we could get that on the record later.

Mr. DAVIES: Yes, I would be pleased to provide that information.

Mr. RYAN: Could we also have the amount paid for the 35 acres in Don Mills?

Mr. OUIMET: I can give you this information now. It is \$635,000.

Mr. RYAN: Is that \$635,000?

Mr. OUIMET: For 33 acres.

Mr. RYAN: That is \$635,000 for 33 acres.

Mr. OUIMET: Yes.

Mr. RYAN: Mr. Ouimet, in your opinion, how soon should the C.B.C. proceed to build on either of these alternative sites in the metropolitan Toronto area? What would be the deadline.

Mr. OUIMET: As soon as possible.

Mr. RYAN: Well, could you relate it in terms of months or years.

Mr. OUIMET: In both cases now it is a question of doing further engineering work. We could not start building in Montreal before the deadline stipulated in the contract of October 1, 1965. And, in the case of Toronto, before calling for tenders we would have to have a fresh look at our plans which were shelved three years ago.

Mr. RYAN: That is, if you proceed at Don Mills?

Mr. OUIMET: Yes. But if we had to make new plans for downtown it would take a good year at least to make the plans, or perhaps a little more.

Mr. CARDIFF: Could you give us the amount paid for the 25 acres in Montreal?

Mr. OUIMET: It was \$2 million plus 12 payments of \$180,000 a year, but no taxes. So, you have to deduct what the taxes would have been.

Mr. RYAN: I suppose the Toronto Don Mills site was soil tested beforehand.

Mr. OUIMET: Yes.

Mr. RYAN: And, you are satisfied that you can erect a tower there?

Mr. OUIMET: Yes.

The CHAIRMAN: Gentlemen, we will now move on to special survey. We have some time left yet.

Mr. Henderson, would you mind dealing with this generally, after which I will call upon Mr. Ouimet to make a few comments, and then members may put questions. We are on page 21 of the 1963 report.

Mr. HENDERSON: As is stated here on page 21 in my report to the board of directors for the year ended March 31, 1960—and this was a report similar to this which, I might say, was tabled and printed in the evidence of the broadcasting committee on June 1, 1961—I drew attention to various weaknesses in the system of internal control and made recommendations designed to correct these weaknesses. At the same time we suggested to the board of directors that a useful purpose might be served by having the corporation's organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the audit office.

It will be recalled that this particular report was tabled during the hearings of the special committee on broadcasting held in 1961, and was the subject of discussion in that committee. In its report to the House of Commons on June 28, 1961, the committee recommended that, following a review of the report of the royal commission on government organization, consideration be given by the board of directors of the corporation to the advisability of commissioning management consultants to inquire further into the operation of the corporation.

In report 19, volume 4, of its reports, released on April 17, 1963, the royal commission on government organization duly reported on the results of its review of the Canadian Broadcasting Corporation.

The commissioners stated that, while they had not undertaken the detailed investigation and appraisal which the special committee on broadcasting may have contemplated, their report was proposing guidelines and criteria which, subject to government decisions on policy, should permit the corporation to adjust its internal organization and operations to management and performance needs, with the aid of such advice, from within the government or elsewhere, as it may consider necessary. This was the report that has been referred to earlier in the discussions in this committee today and last Thursday.

Several of the commissioners' comments, particularly those relating to financial administration, refer or deal with matters which had been the subject of critical comment in our 1960 report. However, as explained in our subsequent reports to the board, we found that a number of those matters have since been remedied, particularly those relating to the position of the chief financial officer, the formation of an effective internal auditing section and more effective stores control.

Notwithstanding this action on the part of the management in adopting our recommendations and suggestions, we felt that a useful purpose would be served if we reviewed the comments made by the royal commission on government organization in report 19 having regard to its critical appraisal of the corporation's operations, particularly in the area of internal financial control. We therefore discussed these with the chairman of the board, the president and the chief financial officer in a meeting held on June 19, 1963—that is, about a year ago—and received their assurance that appropriate remedial action would be taken after discussion of the points by these officers with the board of directors. The president also undertook to furnish us with a copy of any report which he may submit to the director of the bureau of government organization on the commissioners' findings in report 19.

I might add that Mr. Ouimet duly furnished me with copies of that report, or excerpts from that report, as they related to the financial matters with which I was concerned. He furnished them to me approximately a month or six weeks ago. The reason my officers and I discussed this matter with Mr. Ouimet and Mr. Dunsmore—the chairman of the board—and Mr. Davies a year ago was to satisfy ourselves respecting the position of the comptroller in his capacity as the principal financial officer of the corporation. You will appreciate that as the auditor of the corporation I must at all times be satisfied that its system of internal financial control, which is the direct responsibility of the chief financial officer, is functioning satisfactorily, and that that officer at all times is able to exercise effective and direct supervision over the accounting of revenues and disbursing of expenditures wherever they take place in the corporation. We therefore have a direct interest in how the accounting and financial operation in a company is organized and how it functions if we are to place the reliance upon it when we carry out only test auditing. This is a subject we have also covered in your consideration of the earlier comments in my report to the house.

I have already told you that Mr. Ouimet had agreed in 1961 to have the comptroller report to him directly rather than to the vice president in charge of administration, thereby giving the comptroller the status he requires to do his job effectively—a point, I might say, that was stressed by the Fowler royal commission in its report of 1957. Mr. Ouimet also adopted my recommendation that the comptroller should establish an effective internal auditing function under the comptroller's direct supervision. This was planned and established by my officers working in conjunction with an outside firm of chartered accountants engaged for this specific purpose. Again, such a function is of direct importance to us because of the reliance we must place on the effectiveness of the internal auditors' work programs and reports which are always a part of our studies during the course of our external auditing. In addition, the budgeting function—that is the preparation of the corporation's budget—was also transferred from the vice president of operations to the comptroller, and a systems and procedures unit operating at the management level was likewise placed under his jurisdiction.

The principal point left which has concerned my officers and me had to do with the authority given to the comptroller over the chief accountants in the corporation is regional centres, and this was the principle point of my discussion with Mr. Ouimet and Mr. Dunsmore a year ago. Under the decentralized accounting operations of the corporation, all of the revenues are collected under the supervision of the chief regional accountants, and all of the bills are paid by them at these regional centres. I therefore regarded it as a matter of prime importance to be very clear to whom these regional accountants reported at head office in Ottawa because these men carry a substantial responsibility, particularly in the large operational centres of Montreal and Toronto where the major spending of the corporation takes place.

I found it to be quite clear that these regional chief accountants were responsible for their work to the comptroller at head office in Ottawa so that there would be a clear line of responsibility in this regard right to the top. I raised this question with Mr. Ouimet and Mr. Dunsmore because my officers have observed that the regional chief accountants tended to regard their regional operating chiefs as the men to whom they were responsible rather than to the comptroller at head office, even though he may lay down the functional lines they would follow in their work. Mr. Ouimet and Mr. Dunsmore told me, at our meeting last year, that this was an organizational matter in process of clarification. I may say the president appreciated the importance I attached to having a line of responsibility direct to the comptroller at head office, and I received his assurance that this situation would be clarified at an early date. I understand this matter is still in abeyance however, and I would therefore like to ask the president if he could perhaps say something about where this matter stands at the present time and how it is proposed to settle it.

The CHAIRMAN: Gentlemen, I am going to ask Mr. Ouimet to make a statement with regard to the question posed by Mr. Henderson on this general aspect. You will then have the benefit of the views of the corporation as well as those of Mr. Henderson, and your questions may be directed to that.

Mr. OUIMET: Mr. Chairman, I understand from the Auditor General's statement that in general his recommendation—except for the very last one he has mentioned—had dealt with satisfactorily by the corporation.

With respect to the observations of the Glassco commission, I should tell the committee that we have set up within the corporation late last fall a study group to look into the organization of the corporation. I am using the word "organization" in the very broad sense of the structure, that is the

men and the interrelationship between the structure and the men. The study was started, as I have told you, late last fall, and it was estimated that it would take at least a year.

While specific action may involve further study, which may require a little longer, we expect that the major part of the study itself will be finished during the course of 1964. We are expecting a great deal from this study and from the men responsible for it because the men who have been given the responsibility were chosen very carefully. This study group consists of seven people, six of them being selected from our major production points to represent the regions and the head office. They were selected for their particular knowledge of our operations, of our four networks, the English radio and television networks, the French radio and television networks, as well as the regional operations and the head office administration.

Collectively they bring direct program, engineering, accounting, personnel, organization, management, and consulting experience to the study. To ensure a fresh outside viewpoint, a management consultant was added to the group, and he brings to the work of the group many years of management consulting experience.

As you know, the advisory committee on broadcasting which was set up under the chairmanship of Mr. Fowler has been given, among other assignments, the responsibility to assess and to report on the studies made by the corporation of its organization. This is another reason why we must try to complete our work before the end of the year as originally planned anyway. For the moment, it is too early for me to report any specific action that we propose to take.

We are still in the discussion stage, but we expect a great deal from the study, and the work seems to be in good hands. I might say to you that already we have found a number of areas in which there could be definite improvement.

Now, as to the specific question which was raised by the Auditor General, as to the location within the organization of the chief accountants of the two major divisions, in Toronto and in Montreal, this is part of the work that is proceeding at the moment. But I think we can assure him in saying that in all probability, unless somebody can bring good arguments to the contrary, the present line of reporting which now is not direct will be made direct without any intermediary between the chief accountant and the comptroller. I must say that I am talking now about the functional line of reporting.

Obviously these chief accountants have got as their first job, their first responsibility, the job or duty to provide to the management people of the area they serve all the documents that they need in order to arrive at proper decisions. Therefore, this is a case where there is a functional responsibility to the comptroller where all the procedures, methods, and all the skills, the policies, the standards established by the comptroller must be followed by these chief accountants. But their day to day work of course is to serve the management people in these divisions.

I do not think there is any conflict there between what I am saying and what the Auditor General was saying. So I think we have the situation well under control, and I think we are moving directly in the direction he has mentioned.

Mr. HALES: I notice that the Auditor General made special reference to more effective stores control. On page 18 he said that inventory of capital assets was taken in 1962 but the pricing of these assets and the comparison of physical count with accounting records remains to be completed at the end of 1963. So I take it that there was a physical inventory taken of capital assets, but they had not been priced by a year later. I wonder what explanation there would be for this.

Mr. HENDERSON: May I ask Mr. Davies to speak to this, because he knows more of the details than I do at the present time.

Mr. DAVIES: This was a matter of the magnitude of the task that was before us, and we have done this without the addition of extra staff. We have something like 110,000 items of inventory, and they are at about 95 different locations exclusive of the various buildings within those locations. We have other places such as the relay transmitters—I do not know how many there are, but I think there are over 100 of them, and of course they have additionally 7,500 items. The main task before us is to ensure, after having taken the inventory, that the movement of the assets within each area is controlled.

In the first inventory that we took we found a situation which gave us some cause for concern in that after we had got it mostly completed, the descriptions of the items, and the way that they had been listed did not lend themselves to control of the shifting or movement of these assets within the various places. So we have had to go back and redo some of these things. This would have to be established first.

In our view control of the assets by physical means, and being able to associate them with inventory items would be the first thing to be done. A so-called pricing or reconciling, if you wish, of these listings or inventories that they show in the detailed records of the corporation is of mere secondary importance. I do not mean secondary because it is unimportant, but it is a question of the relevance of what you have to get at first.

Mr. HALES: I take it from your explanation that the inventory was not taken correctly the first time, or within the terminology that you expressed.

Mr. DAVIES: It is a very difficult thing, sir. For instance, you have a piece of equipment, and you know how it is noted. But in comparison to the description used on your record cards and having regard to what the technicians call it, there may have to be some reconciliation. There was no possible way to find this out until we actually did some of it, and we have been working in conjunction with the engineers, and they have been doing this part of the time.

Mr. HALES: Had you never had an inventory before this time?

Mr. DAVIES: There had been an inventory taken some ten years ago before we started.

Mr. HALES: In other words, you have been operating for ten years without inventory control.

Mr. DAVIES: But there was inventory control on a book basis, but there had been a physical inventory taken in the days when it was much smaller, and then during the period that it had not been taken there was a great increase in the number of asset items.

Mr. HALES: I would say that this observation of the Auditor General, when he said that there should be more effective stores control, was certainly well prompted.

Mr. OUMET: I think we agree with that observation.

Mr. HALES: But we are not making any headway to correct it, because we are a year behind.

Mr. DAVIES: I think a great deal of headway has been made.

Mr. HALES: I think the corporation should give us some explanation of what they propose to do to get this inventory under control, and say whether they are going to carry on a perpetual inventory, as it were.

Mr. DAVIES: With physical assets the perpetual inventory method is usually reserved for stores items. The physical assets we are speaking of are items of furniture, office equipment, studio equipment, lighting, and things of

that nature. It is our plan that as this becomes established we will be taking every year a certain class of these assets throughout the whole corporation so it will be on a continuing basis, in order to relate it back to the books.

Mr. HALES: If this committee should ask the corporation to produce an inventory, could you produce one?

Mr. DAVIES: Yes sir, we could, from the books that we now have, and from the asset items.

Mr. HALES: And this could be back checked with physical accounting?

Mr. DAVIES: To the extent that we have checked it, yes. There has not been full reconciliation of the locations. This will take some time.

Mr. RYAN: I wonder if I might ask if the corporation has insurance on these things?

Mr. DAVIES: We are fully insured, and with fire insurance we are under the fire replacement act of the government.

Mr. RYAN: Do you not have to supply an inventory to the insurance company at least every three years if not annually?

Mr. DAVIES: We are under the fire insurance act of the dominion government, and that has not been required.

Mr. HALES: I want to follow my line of questioning a little further and take it to an actual case. Suppose in your Toronto studio your book inventory shows that you have ten—take any item; you may name one.

Mr. OUMET: Let us say ten cameras.

Mr. HALES: All right, ten cameras or ten tubes of a certain type. You can go to this Toronto place and take a physical inventory and there would be ten of these camera tubes to correspond to your book records.

Mr. DAVIES: This is in the area of stores. In respect of stores, you could go to a bin and there would be a card to indicate how much is in the bin and also a book record to indicate there would be ten; so, there is a dual control there.

Mr. HALES: But you cannot do it for furniture and the like?

Mr. DAVIES: I could not make a blanket statement that we could do it because I know there are areas where we have not done this yet, but I would say in areas where we have done this fully, the difference between what we have in the books and what we have found is not significant, specifically in one area after we finished it up. So, generally speaking, I would say we are not in bad shape so far. There are some big areas in respect of which we do not know yet.

Mr. HALES: In some areas your book account does not agree with the physical accounting?

Mr. DAVIES: No; where we have checked the book listing of the number of desks, for instance, when we have counted those desks, the variation has been very slight. In other words, this has been the result in areas where we have tied it down as, for instance, in Newfoundland.

Mr. TARDIF: I have a supplementary question. Do you keep a perpetual inventory for parts and things like that?

Mr. DAVIES: Yes, sir; we keep a continuous inventory. At any one time we know how many tubes, condensers, and so on, there would be in stores.

Mr. HARKNESS: In his report, the Auditor General referred to a recommendation made by the broadcasting committee in 1961 which is repeated by the Glassco commission. The recommendation is that consideration be given by the board of directors of the C.B.C. to the advisability of commissioning

management consultants to inquire further into the operations of the Canadian Broadcasting Corporation. Has anything along this line been done in order to assist the study group, of which you spoke, to complete its study?

Mr. OUMET: Yes. I mentioned that the study group includes a management consultant who has been working with the group now for seven or eight months.

Mr. HARKNESS: That is one man?

Mr. OUMET: It is one man, yes.

Mr. HALES: May we ask who it is?

Mr. OUMET: Mr. Jack Shirley of Woods Gordon and Company; he is a partner.

Mr. HARKNESS: Do you think one man can do the job adequately?

Mr. OUMET: It is not one man. There are seven men.

Mr. HARKNESS: I thought you said it was one man.

Mr. OUMET: I just outlined that the study group was made up of seven men, six internal and one from outside.

Mr. HARKNESS: I am talking about the outside advice which consists of the advice of one man?

Mr. OUMET: I think this is adequate. I believe what we need is knowledge of the broadcasting business plus knowledge and experience in the handling of studies of this kind which can be provided by the outside man.

Mr. HARKNESS: The chief purpose of this study, as recommended by the broadcasting committee and also by the Glassco commission, is not so much the matter of broadcasting per se, but rather the business methods and organization of the corporation. I would doubt whether you are getting the amount of advice and the amount of inquiry into those particular matters which perhaps would be required to produce the best results.

Mr. OUMET: We very carefully thought over the various possibilities. Of course, we had before us the possibility of taking a team of consultants entirely from outside, or one entirely from inside. We thought the one we have chosen was the one most likely to provide the result we required. Frankly, I think we should reserve judgment until we know what measures will be taken by the corporation at the end of this study. It will be assessed not only by ourselves, but also by the advisory committee on broadcasting which has been given special terms of reference.

Mr. HARKNESS: I would suggest it is very much in the way of being what I might call token compliance with the recommendation of the 1961 committee on broadcasting.

Mr. OUMET: I wish I did not have to disagree with you again, Mr. Harkness, but I do not think the word "token" applies to the situation.

Mr. HARKNESS: With regard to the financing of the corporation, the Glassco commission stated:

Each year parliament is asked to vote the funds necessary to bridge the gap between corporate income and outgo. The scrutiny of these budgets is carried out by the staff of the treasury board, the outcome being usually an arbitrary reduction in the operating budget of three or four million dollars. No direction is given the corporation concerning the control of either revenue or expenditure.

When you get the arbitrary reduction of \$3 million or \$4 million in the budget, how do you meet that situation?

Mr. OUMET: We have to completely realign the budget. Obviously if we have a budget prepared, it is based on certain projects which are supposed

to be carried out. I am speaking now about operational projects as well as capital: it also applies to capital. Then, the amount is changed and we have to realign the projects accordingly.

Mr. HARKNESS: This is the operating budget we are talking about, "reduction in the operating budget of three or four million dollars". This has nothing to do with capital.

Mr. OUMET: All right; the answer is the same. We have to completely realign the budgets. We have to divide the cut according to the needs, and generally most areas of the corporation are affected.

Mr. HARKNESS: Is that the way in which you actually do it, or do you just not go ahead with projected extensions?

Mr. OUMET: No, we still try to develop our extension program, but perhaps not to the same extent as if we had not had a cut. We try still to develop our extension program and at the same time, obviously, we have to take care of the built-ins, those things which are committed from the previous year. These must be given priority. I think every year we have extended our service at least to some degree.

Mr. HARKNESS: This has been your experience year after year, has it?

Mr. OUMET: That we get what? A \$3 or \$4 million cut?

Mr. HARKNESS: Yes.

Mr. OUMET: No, certain years have been more difficult than others. I think it was two years ago that we had a cut in total of several million dollars at the moment of austerity.

Mr. HARKNESS: That was on your capital budget, chiefly?

Mr. OUMET: There was quite a bit on operation also.

Mr. HARKNESS: In connection with the \$3 million or \$4 million which they mention I would ask you, having had this experience, do you in actual fact put in a budget which you expect will be cut by \$3 million or \$4 million? In other words, is this amount not added to the figure on which you can get by?

Mr. OUMET: Mr. Davies is anxious to answer this question.

Mr. DAVIES: I think probably, sir, the most significant way in which I can answer is by saying that the figure we put in for salaries, which represent something like 40 per cent of our budget, is something within \$100,000 of our actual. This is indicative of the accuracy that we have with these figures. The discussions we always have with the officers of the treasury board—and have had for a number of years—before the submissions are of a co-operative nature, which makes me feel that there is certainly a confidence felt in the manner in which these budgets are prepared.

Mr. HARKNESS: I asked the question on the basis of personal experience, and I think on the basis of the experience of every minister. It has been the case in the three departments I have had—and I think it has been the same in every other department—that the budgetary requests one receives from the various branches of a department are always higher than one can possibly meet. I have always suspected that the people preparing the budget asked for so much, figuring they would get so much less. It is always one of the jobs of the minister to cut those down to what he knows he has.

Mr. TARDIF: This may be the exception to prove the rule.

Mr. HARKNESS: In this case there is no one to do this.

Mr. OUMET: We are in a privileged position. We are new to all this. We were put on annual votes only five years ago, and we have not learned the bad tricks you are telling us about now!

Mr. FISHER: Why do you not consider it from a different angle? The fact that you have not spent your budget in a certain number of years would be indicative.

Mr. OUMET: This is true. In some years we have turned back, let us say, \$2 million on operation, and in another year we have turned back \$160,000, and in yet another year, \$700,000. This shows we are not trying to spend the very last cent of it. Usually what happens when there is a large cut is that we have to completely eliminate from the budget certain fairly large items. At the time of the austerity program, for example, we had to remove the FM operation and the emergency broadcasting operation, and we had to go into very extensive cuts all the way through the corporation.

Mr. HARKNESS: In the report it is stated that no direction is given to the corporation concerning control of revenue or income. Have you any comments you would like to make, Mr. Henderson?

Mr. HENDERSON: The observation there means to me that no direction is given by parliament. That is what they mean, is it not?

Mr. HARKNESS: No, they are talking about the treasury board. In other words, what they are really saying is that there is no control over either revenue or expenditure from anywhere other than from within the corporation itself.

Mr. HENDERSON: The treasury board's contact with a crown corporation such as this basically takes place at the time the corporation has to ask for the approval of its budget, in the way in which Mr. Davies and Mr. Ouimet have been describing. Having gone over their figures, and the officers of the corporation having appeared before the treasury board, and approval having been obtained and the final figures settled, I think I am correct in saying that the treasury board does very little else in terms of day to day surveillance or supervision for example, of the corporation's monthly figures by way of checking on how it is progressing. As you know, the comptroller of the treasury's jurisdiction does not extend to crown corporations; it only applies to the departments of the government. Having therefore obtained its approval, the corporation is on its own, and for that matter so is every other crown corporation under the present system, in effect.

I think what the Glassco people meant here was that the treasury board could be of some assistance to the corporation in expressing some views on the control of its revenue and expenditure. I would point out to you that elsewhere in the Glassco report, particularly under financial management which appears in volume 1, the commission touches on this very point I mention. Really, this is one of the factors behind their proposal for the establishment of the new office of president of the treasury board aimed at divesting the treasury board of a great deal of its detail so it can in fact devote more time to this very thing we are discussing here. I believe this to be a good recommendation and something that illustrates the real part the treasury board staff could play in assisting some of these crown corporations. They could call for interim financial statements each month and just look to see how their creatures are doing—because they, after all, are the bankers.

Mr. HARKNESS: I have many other questions I would like to ask but as it is ten minutes after ten perhaps I should desist and allow someone else to examine the witness.

(Translation)

The CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: I do not wish to delay the work of the committee, but I would have liked to ask one or two questions of Mr. Ouimet, and I had no chance of doing so. We talked about saving the CBC dollars, of the use of its

dollars and of the control over the dollars it spends. There is another matter which is not relevant to its funds, but about which I would like to enquire and obtain some information, and that is programming. I would not like Mr. Ouimet to consider this as a reproach or an overall criticism of all the programmes presented by the CBC, but, because I have seen many, I would like to find out what system you apply in order to control and analyse the morality of the programmes which you produce, because we remember the broadcasts which were presented, those which surprised or shocked the population in general, as clearly as we remember the production entitled: "La Belle de Céans", which was shown some time ago and which shocked the population ...

(Text)

Mr. TARDIF: On a point of order, Mr. Chairman, I do not think that has anything to do with the examination we are making of expenditures.

Mr. RONDEAU: I know that, but I just wanted to have some information from Mr. Ouimet while he is here, because he is the man who can answer that.

The CHAIRMAN: On the point of order which is raised, I do not think we have any right to inquire whether there should be censorship and, if there is censorship, what form it should take. If you are just laying the foundation for a question on methods used in the corporation I think this is not unreasonable; but I do not think the committee is entitled to go into the matter of censorship and the methods of censorship employed.

On the question of organization, I think this is not an unreasonable question at this time and Mr. Ouimet may care to answer it on that basis only.

(Translation)

Mr. RONDEAU: It is precisely on that subject that I wish to ask a question. I would like to know what kind of control—or you may call it censorship—you exercise to determine if the morality rating of a broadcast is good or bad. Would you give us your opinion on this point, Mr. Ouimet?

Mr. OUMET: Your question infers, Mr. Rondeau, that the morality of many programs is rather dubious. We should find out if we agree on that statement. However, in a general way, we have a policy and standards which apply to every production, or which are applied by persons vested with direct responsibility. If we talk about the French networks, we have a general director for the French networks. He is responsible for everything which occurs in those networks; he has specialists in every field. One is in charge of children's broadcasts, others of religious broadcasts, theatrical broadcasts, variety broadcasts, and everyone tends to his own business under the supervision of his chief, as in any other organization.

There is nothing special in that organization; it is the same as in any other organization which you may find in an enterprise that controls the quality of its programmes or of its products.

Mr. RONDEAU: I would like to point out another recent case, but I do not want you to consider it as a general reproach. How does the CBC proceed to determine if a programme is acceptable? If there is some degree of censorship or checking ...

Mr. OUMET: Whether the English or the French network is involved, this is a matter of human judgment. One man or several men judge if a programme is acceptable or not; they judge according to the criteria which are known to them, because they are enacted by the CBC in a general way, and they are based upon the general philosophy of the CBC. Some complicated cases may be submitted to the general director instead of the director of programmes or broadcasts.

That is not always the case, but it is always a question which is decided by men. You may be interested in learning that a year and a half ago, we asked this question of the Canadian public, and that we asked for a sample which was selected scientifically throughout the country and which comprised French-speaking as well as English-speaking Canadians, people from the Maritimes and the Western provinces. We asked them their opinion about the programmes, if some shocked them or scandalized them. We endeavoured to find out exactly what they thought about this question of morality, and if I remember well, a small minority, maybe six or seven, did not like some broadcasts from that viewpoint.

Mr. RONDEAU: There is another point besides morality, something which occurred recently: for instance, the two broadcasts presented by the CBC on the assassins of Coffin. Before the meeting . . .

(Text)

The CHAIRMAN: I will have to stop you there, Mr. Rondeau, because we are now getting into a specific question. I think this question comes within the general prohibition that I felt I should lay down. I think Mr. Ouimet, yourself and anyone else is entitled to go into this general question regarding how this is organized and the general attitudes so far as the organization is concerned, but you are getting into issues regarding whether or not certain plays or programs are ones that should or should not be shown for one or more fundamental reasons. I think we are now going beyond our jurisdiction as a public accounts committee and perhaps getting into something which should be dealt with by a broadcasting committee. As I warned you at the beginning of our deliberations, this is something over which I feel we have no authority or jurisdiction. I feel the matter of broadcasting is something with which we as an accounting committee should not deal.

Are there any other questions?

(Translation)

Mr. RONDEAU: That was merely to make Mr. Ouimet feel more comfortable. I meant to illustrate what I mean when I ask what is the policy of the CBC towards its programmes. I understand that some facts may slip by the best organization in the world.

Mr. OUMET: Evidently, "La Belle de Céans" slipped our attention.

(Text)

The CHAIRMAN: Mr. Fisher, you indicated you had some further questions to ask.

Mr. FISHER: You opened up this whole question of programming approval in a general way and then you said the specific question did not lead to anything in respect of which the public accounts committee should deal. There is one program of very recent origin which has been ruled out, yet does involve the financial aspect in view of the fact that there is an offer to purchase it in existence.

The CHAIRMAN: That probably will be an item for discussion by next year's public accounts committee, Mr. Fisher.

Mr. FISHER: Yes, and I hope to be around at that time.

I should like to ask Mr. Ouimet one further question. I understand there are certain people under charge in Montreal in respect of a criminal action in connection with some kind of misappropriation or mishandling by C.B.C. people of equipment or funds; is that correct?

Mr. OUMET: As of this year that is correct.

Mr. FISHER: Was this fact discovered by accounting methods?

Mr. OUMET: I believe this was discovered by accounting methods, yes. Mr. Davies may be able to give you more information in that regard.

Mr. FISHER: This has not come within the Auditor General's purview as yet?

Mr. HENDERSON: No.

Mr. DAVIES: This was something we came upon on our own, Mr. Fisher.

Mr. HENDERSON: The corporation detected this before it had gone too far.

Mr. OUMET: This involves a question of alleged forgery.

The CHAIRMAN: Mr. Ouimet, perhaps we better not get into this too far because this is something you and the Auditor General will have to work out and will or will not be the subject of a paragraph in his future report.

Mr. FISHER: This situation is current and has nothing to do with the past?

Mr. DAVIES: That is right.

Mr. FISHER: That is fine, thank you.

The CHAIRMAN: Gentlemen, it is now 20 minutes past ten o'clock. We have had a very good opportunity of examining C.B.C. officials over the past two days at six meetings. I am assuming that no one else is indicating any great anxiety to ask further questions.

Mr. Southam, do you have a further question?

Mr. SOUTHAM: I should like to ask one general question in respect of finances.

We have been discussing the item headed special survey, appearing at pages 21 and 23. Mr. Henderson gave a very comprehensive report at the commencement of our consideration of this particular item and then added some supplementary remarks which I thought were pertinent. Following those remarks, Mr. Ouimet himself gave a report in relation to the particular area of internal financial control. My question is directed to Mr. Henderson. Are you satisfied now, having heard the report of Mr. Ouimet, that the results we look for as far as internal financial control is concerned will be forthcoming?

Mr. HENDERSON: I shall only be satisfied if, as and when the organization makes changes whereby the regional chief accountants report directly to Mr. Davies. You have my report in which I give my reasons in this regard. The big money in this corporation comes in and goes out in the two big cities, and I consider that the regional chief accountants there should report directly to Mr. Davies, and carry out his instructions. I recognize they have to live with the local people in Toronto and Montreal, but they should not be under them. Mr. Ouimet indicated that they still report to those men in Toronto and Montreal, and this to me violates the principles of internal control, which I regard as very important in my work. We place great reliance on the system and must do so as long as my work involves only a test check. If we have any misgivings about the adequacy of the system of internal control, you would say to me I should do three times the amount of test checking I am now doing. Therefore we watch the efficiency of this at all times, and it testifies to Mr. Davies organization that it was his office which detected this defalcation, to which Mr. Fisher referred a moment ago.

I would hope very much there will be an early decision by Mr. Ouimet and his associates regarding this fundamental point of organization. He has given an explanation in respect of just one of the matters on which this special study committee is working, and I am only asking for what is customarily found in most of the major corporations in Canada operating under similar circumstances. I hope you see my point.

Mr. SOUTHAM: I am very pleased, as I am sure other members of the committee are, to hear you re-emphasize this particular point. I think this would be quite a step forward.

Mr. HENDERSON: As you know, in my reports to the house I have dealt with the adequacy of internal financial control at some length, and the Glassco commission devoted a considerable amount of space to it. Treasury board at the present time is overhauling the situation as it exists in all the departments. We simply cannot make that too strong because it is one of our surest guarantees of the accuracy of our work in accounting for our revenues and expenditures. This is a tremendous business we have here—speaking of the government and the crown corporations as a whole—and we should be seeking to strengthen it wherever possible. As you know, I only have a very modest staff and I carry out all my work out on a test check basis. I cannot examine all the transactions. Now, I would like to feel we can place a reasonable reliance on the systems that are in effect. If we cannot I do not hesitate to say so. Here is one place where I feel some repair is required, and I have brought it forward again because I do not regard this situation at the present time as satisfactory.

Mr. SOUTHAM: Then the only other observation I have to make at this time in reference to Mr. Ouimet's statement is that I would suggest that rather than taking a year, if that was the proposed time, we should speed this process up so that it will prove to be in the best interest of everyone concerned and also help you, Mr. Henderson, in a more comprehensive review of the matter.

Mr. HENDERSON: I believe he has it high on his list of priorities and I am sure he will do his best to meet me on this remaining point. I must be perfectly fair and say that this is the remaining point so far as the criticisms I have had to make over the past several years are concerned. He has been good enough to meet me on the others. As I mentioned in my remarks, I am hoping we can complete them by this change I have asked for.

The CHAIRMAN: Have you a question, Mr. Ryan?

Mr. RYAN: Mr. Chairman, last Thursday in respect of film purchase and rentals I asked for the budget and actual figures for the fiscal years 1959, 1960 and 1961, and I wonder if they have been put into the record.

Mr. OUMET: I am afraid, Mr. Ryan, that is one that slipped by. Could we provide the information through the Chairman of the committee?

The CHAIRMAN: Does the committee agree that this information will be added as an appendix to today's proceedings? It will be some time before the evidence is ready. Is that satisfactory?

Mr. RYAN: It is satisfactory to me.

Mr. FISHER: Mr. Chairman, Mr. Prittie and I are only on the committee for the C.B.C. part of it. We have had an undertaking from the president that the scope of the information in the annual report will be enlarged. However, I still feel it would be a good idea for the committee in its report to set out in certain detail what some of this initial information would be and I would appreciate if at the time you consider doing it you would get in touch with us or any other members who are just on the committee for this specific organization in order to allow us to put forward some of the areas in which we are interested.

The CHAIRMAN: I will undertake to do that, and I am sure between the clerk and me we will undertake to get in touch with the members who are serving on the committee for this particular examination and obtain in writing your views and theirs on this, which will be submitted to the main committee when making up our recommendations.

Mr. OUMET: May I say something on this point. I know this is very important to you. But, there is also the other side of the coin.

While we are going to do everything we can to increase the amount of useful information that we will supply to you in our annual report or through some other form there are still types of information which would be detrimental to our operations if we made it public. So, therefore, I would have hoped that you would have given me a chance to develop what I think would serve your purpose and then you would judge from this rather than put me in the position where you are asking for definite information, at which time I will have to come back and say on such and such a thing I cannot do it because of this or that. I think I know what you want and I think you should give us the chance to try to meet your needs before you make a specific request of this type. I think this kind of information embracing all aspects of the corporation, not just the public accounts side but the policy side and everything, must be considered.

Mr. FISHER: I think you are too sensitive, Mr. Ouimet. We have had too many recommendations from other committees ignored by government departments and corporations to feel any qualms about putting more on the record, just because you feel this way about it. I am not saying this to be impolite but I feel that it is very important that we put our suggestions on the record, not to embarrass you at any future date but so that we know, and you know more concretely the areas in which we are interested, and if you feel differently about it and want to turn them down because of the competitive position we will know, instead of having to come up against the same thing in a year or two.

The CHAIRMAN: When we will be making our recommendations we will have Mr. Ouimet's views expressed now and during the course of the proceedings which the committee will take into consideration.

Gentlemen, before we adjourn there is one thing I want to remind you of; we are meeting again next Thursday, at which time Mr. Richard, the president of the Crown Assets Corporation, and Mr. Armstrong, the deputy minister of national defence, will be present, at which time Mr. Henderson will be filing the report which the committee asked him to prepare as a preparatory statement to this examination.

Before Mr. Ouimet leaves, may I thank you very much, sir, on behalf of the committee for your assiduous attendance, and also Mr. Davies and the other officials. You have been of great assistance to us and I hope we can be of equally good assistance so far as our report is concerned.

Mr. OUMET: May I thank you for your kindness and the kindness of the members of the committee for their understanding of our problems.

The CHAIRMAN: The meeting is adjourned until 9.30 a.m. on Thursday.

Appendix 1

CANADIAN BROADCASTING CORPORATION
ANALYSIS OF PAYROLL
YEAR ENDED MARCH 31, 1963

(in \$ 000's)

Radio—technical and program production	5,628
Television—program production	8,593
—technical production	7,454
—design and staging	5,564
Common to radio and television	
Program production services	4,370
Technical production services	933
Operational supervision and services	5,381
Selling	1,169
Management and central services	3,001
Engineering and development	1,837
Casual employees	133
	<hr/>
	44,063
	<hr/>

July 6, 1964.

Appendix 2

CANADIAN BROADCASTING CORPORATION

Operating Costs of Radio and Television Services
in English and French LanguagesYear Ended March 31,
(in \$ thousands)

	1962		1963	
	French	English	French	English
Total	Total		Total	
Radio				
Expenditures net of depreciation	5,030	16,173	5,367	15,789
Gross advertising revenues	932	1,630	1,154	1,542
Total		2,562		2,696
Television				
Expenditures net of depreciation	28,012	53,947	27,405	54,686
Gross advertising revenues	8,049	22,299	6,866	21,285
Total		81,959		82,091
Radio and Television				
Expenditures net of depreciation	33,042	70,120	32,772	70,475
Gross advertising revenues	8,981	23,929	8,020	22,827
Total		103,162		103,247
		32,910		30,847

July 7th, 1964.

CANADIAN BROADCASTING CORPORATION

Approximate cost of a typical week's programs in the fall schedule

(in \$000's)

Talks and public affairs	189
News	126
Sports	75
Variety (Panel, comedy, light music, etc)	288
Drama	117
Music	91
Specials (Festival, Camera Canada, etc.)	71
Children's and educational	238
Other	97
Series and feature films	221
	<hr/>
	1,513
	<hr/>

July 7th, 1964.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, JULY 9, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; and Mr. Louis Richard, President and General Manager, Crown Assets Disposal Corporation.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Vice-Chairman: Mr. P. Tardif
and Messrs.

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Berger,	Gray,	Ricard,
Cameron (<i>High Park</i>),	Hales,	Rinfret,
Cardiff,	Harkness,	Rock,
Choquette,	Lessard (<i>Saint-Henri</i>),	Rondeau,
Côté (<i>Chicoutimi</i>),	Loiselle,	Ryan,
Crouse,	Mandziuk,	Smith,
Drouin,	McLean (<i>Charlotte</i>),	Southam,
Dubé,	McMillan,	Stefanson,
Fane,	McNulty,	Stewart,
Fisher,	Muir (<i>Lisgar</i>),	Tucker,
Forbes,	Nowlan,	Valade,
Francis,	O'Keefe,	Wahn,
Frenette,	Pigeon,	Whelan,
Gendron,	Pilon,	*Winch—50.
Grafftey,	Prittie,	

M. Slack,
Clerk of the Committee.

*Replaced Mr. Scott after the evening sitting of July 7.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, July 7, 1964.

Ordered,—That the name of Mr. Winch be substituted for that of Mr. Scott on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, July 9, 1964
(18)

The Standing Committee on Public Accounts met this day at 10.10 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Crouse, Francis, Hales, Harkness, Mandziuk, Prittie, Regan, Rondeau, Ryan, Smith, Southam, Stefanson, Tardif (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; and *from Crown Assets Disposal Corporation:* Messrs. Louis Richard, President and General Manager; I. M. Mackinnon, Assistant General Manager, and L. M. Mondor, Comptroller; and Messrs. Smith, Hayes, Laroche, Millar and Hogan of the Auditor General's office.

The Chairman made a statement relating to the extent to which the Auditor General is entitled to rely upon the legal services of the Department of Justice. Mr. Baldwin also advised that the Committee will hear the views of the Deputy Minister of Justice at a later sitting.

Pursuant to an undertaking to the Committee on June 4, the Auditor General delivered a report on the sale of surplus equipment of the Department of National Defence by Crown Assets Disposal Corporation.

The Chairman then introduced Mr. Armstrong who stated the views of his department on the subject of surplus materials.

Mr. Richard was then introduced and he reviewed the nature of the surplus materials and the difficulties involved in their marketing.

Messrs. Armstrong, Richard and Henderson were examined and supplied additional information.

The questioning of the witnesses relating to the sale of surplus materials being concluded, the Chairman thanked Mr. Richard and his officials.

At 12.05 p.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

Members present: Messrs. Baldwin, Cardiff, Hales, Harkness, Prittie, Ryan (6).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; and Messrs. Millar, Hogan and Laroche of the Auditor General's office.

At 4.10 p.m., there being no quorum present, the members dispersed.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, July 9, 1964

The CHAIRMAN: Gentlemen, I see a quorum and I call the meeting to order.

Before I open the subject of discussion this morning may I make one very brief statement? On my own initiative I discussed with Mr. Henderson a problem which has come before us in different ways; that is, the question of the extent to which Mr. Henderson as Auditor General is entitled to rely upon the legal services of the Department of Justice.

As you know, Mr. Henderson is the agent of parliament; he is not the agent of the government. Constitutionally and by statute the Minister of Justice and the attorney general are the advisers of the departments, not the crown. Usually there are not too many cases where there might be conflict, but from time to time I have observed that Mr. Henderson, when having to rely on legal advice, has had resort to the Minister of Justice. There may be occasions when there could be a conflict of interest.

With this in mind, I brought the matter up personally, on my own initiative, and discussed it with Mr. Henderson, who informed me that this has been of some concern to him in the past. Mr. Henderson has had some discussion with the deputy minister of justice, Mr. Driedger, and at a meeting we hope to have in the not too distant future we hope he will come along and have a brief discussion with us. It need not pre-empt our time for a long meeting, but he would be able just to discuss this very important point of to whom Mr. Henderson may resort to get advice when there is some conflict with regard to a view he, as Auditor General, takes of a statute and the view the department may take. We will have the opportunity of having the benefit of Mr. Driedger's views, and we will notify you when that meeting will be called.

Having said that, I now call to your attention the fact that this morning we will be dealing with a matter brought up some time ago in connection with Crown Assets Disposal Corporation and, in particular, the matters coming into the fiscal year ended March 31, 1963, and certain items which were declared surplus and which have been disposed of.

By agreement, Mr. Henderson has prepared a statement as to his investigation in this matter. You should all have copies of this statement. Then Mr. Richard, the president of the corporation, has come back with his officials prepared to answer questions and he also has a statement to make.

I will ask Mr. Henderson if he will deal with this matter from the basis of the statement. After the statement, I will call upon Mr. Richard and then there will be questions, as the members see fit.

Mr. Armstrong, the deputy minister of defence, is here and I will introduce him later. He will be free to make a statement and to answer any questions or to make any comments on matters which he thinks are of concern to him.

Mr. Henderson.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman. I prepared my statement in a number of copies in order that it might be distributed to the members for purposes of this morning's discussion. They will thus have in front of them the tables of figures which are contained in that statement for ready reference.

I should like to tender my apologies to the committee, Mr. Chairman, for not presenting this statement to you in French. However, the fact is that my officers and I have been engaged, with those of Mr. Richard's corporation and Mr. Armstrong's department, under extensive pressure to prepare this information; it was only late yesterday that we were able to put down these conclusions for you. On checking with the translation department we found it was not possible for them to have it translated into French in time for this morning's meeting.

In a statement to the standing committee on public accounts last month, I pointed out that during the fiscal year ending March 31, 1963, the Department of National Defence had reported as surplus unused or useable materials having an original cost of approximately \$39.5 million. The declarations with respect thereto numbered about 2,600, and together with others which pertained to scrap and material in need of repair and which were not priced, accounted for approximately 8,500 separate declarations made by the department during the year. Following a discussion I undertook to produce, in co-operation with the department and Crown Assets Disposal Corporation, a memorandum which, *inter alia*, would deal with the liquidation of the items involved in the declarations accounting for the amount of \$39.5 million. In compiling the data embodied in this presentation I received full co-operation from both the corporation and the department. Mr. Elgin Armstrong, deputy minister of national defence, and Mr. Louis Richard, president of Crown Assets Disposal Corporation, are here today and both these gentlemen wish to speak to the committee following its study of the information I am now going to present to you.

At the outset it became evident that in order to meet the wishes of the committee and at the same time to keep the project within reasonable bounds of practicability, it would be necessary to take an approach to the problem not related precisely to the amount of \$39.5 million referred to in the evidence. There were two basic reasons for this.

1. The items aggregating \$39.5 million appeared on declarations which had been approved by the Department of National Defence in that year, but were not necessarily received by Crown Assets Disposal Corporation during the same period.

2. To review and extract pertinent information from over 2000 files, many of them involving declarations of items of slight value, and later to pass the data to the Department of National Defence for the insertion of additional information to be obtained from departmental files, would take several weeks.

I therefore concluded that to do the work as expeditiously as possible:

- (a) the basic approach should be to those declarations involving new and useable items actually received by the corporation during the fiscal year 1962-63. The net effect of this procedure was to reduce the aggregate amount involved to about \$35.6 million, represented by approximately 2300 declarations; and
- (b) to deal only with those declarations involving amounts in excess of \$25,000 because tests showed that a very substantial percentage of the total amount of about \$35.6 million would in fact be covered. Through this means the work was concentrated on 212 declarations involving \$28,956,581 or 81% of the total.

I trust that this approach will commend itself to the committee.

In connection with the surplus items under review, the Department of National Defence classifies the material in respect of which it shows costs in its declarations of surplus, as follows:

"AN"—New and unused equipment or material, in first class condition, in the same condition as would be furnished by the usual supplier to his customer.

"A"—New and unused equipment or material which a supplier would have to inspect or refinish or repackage before selling as new and unused.

"AT"—Items which otherwise would be designated as "AN" or "A", but are being reported surplus owing to having become "time expired" under existing regulations of reporting government departments or agencies.

"AU"—Serviceable items and material which have been used and do not require repairs, but which may have had repairs made and may be sold for still further use.

An analysis of the declarations which were the subject of the survey, on the foregoing basis, is as follows:

	Navy	Army	R.C.A.F.	Total
AN	\$ 302,129	\$ 573,422	\$ 2,329,217	\$ 3,204,768
A	1,868,362	2,618,782	5,907,915	10,395,059
AT	61,371	—	2,226,787	2,288,158
AU	4,052,671	713,555	8,302,370	13,068,596
	<u>6,284,533</u>	<u>3,905,759</u>	<u>18,766,289</u>	<u>28,956,581</u>

The amount of \$28,956,581 may be further analysed by commodity classes, and by the three services, as follows:

	Navy	Army	R.C.A.F.	Total
Aircraft spare parts	\$ 1,679,728		\$ 7,654,041	\$ 9,333,769
Electronic spare parts	141,183	\$ 82,989	8,541,235	8,765,407
Harbour defence equipment	2,840,570			2,840,570
Vehicle spare parts		2,391,630		2,391,630
Aids to navigation	752,858			752,858
Ammunition and explosives	372,608		149,478	522,086
Armament spare parts	133,445	178,567	39,048	351,060
Nuts, bolts, screws, etc. ..		162,223		162,223
Ships spare parts	116,867			116,867
Air cameras parts and equipment			77,175	77,175
Miscellaneous	247,274	1,090,350	2,305,312	3,642,936
	<u>6,284,533</u>	<u>3,905,759</u>	<u>18,766,289</u>	<u>28,956,581</u>

STANDING COMMITTEE

The amount of \$28,956,581 is further analysed by reasons for disposal, as follows:

	Navy	Army	R.C.A.F.	Total
Changes in operational requirements	\$ 3,622,016	\$ 490,048	\$17,111,571	\$21,223,635
Spares for equipment no longer in use	1,913,051	1,933,104	1,533,064	5,379,219
Excess to current requirements	277,447	495,661	18,748	791,856
Time expired (explosives, batteries, etc.)	372,608			372,608
Miscellaneous	99,411	986,946	102,906	1,189,263
	<hr/> 6,284,533 <hr/>	<hr/> 3,905,759 <hr/>	<hr/> 18,766,289 <hr/>	<hr/> 28,956,581 <hr/>

With regard to the amount realized by crown assets disposal corporation from its sale of surplus items, an analysis of the aggregate amount realized by the corporation in respect of the declarations costed at \$28,956,581, by basis of sale, is as follows:

	Navy	Army	R.C.A.F.	Total
Tender	\$ 107,592	\$ 204,466	\$ 174,121	\$ 486,179
Negotiation after tender ..	38,617	67,736	58,292	164,645
Negotiation without tender .	19,602	6,314	38,366	64,282
	<hr/> 165,811 <hr/>	<hr/> 278,516 <hr/>	<hr/> 270,779 <hr/>	<hr/> 715,106 <hr/>

The three bases of sale used and shown in the above table are described as follows:

The first basis is that of tender; the majority of sales are by this method. Usually done by circularization of prospective customers who are known to be interested in the materials being offered for sale. For this purpose the corporation maintains lists of prospective customers by class of material and equipment offered for sale, and these are the persons circularized.

The second basis is that of negotiation after tender. This method of sale is resorted to in an effort to obtain better recovery when tendering procedures have not produced satisfactory results. Usually it involves an approach to original tenderers in an effort to obtain higher offers.

The third basis is that of negotiation. Sales on this basis are made with priority purchasers, such as federal or provincial departments or agencies, municipal bodies, etc., with whom arrangements have been made to receive offers before notice is given to the public. A requirement is that such sales be negotiated at a fair market price.

Here I will give you a final summary of surplus items under review.

	Original Cost	Amount Realized	Loss on Disposal
Reasons for Disposal			
Changes in operational requirements	\$21,223,635	\$ 423,479	\$20,800,156
Spares for equipment no longer in use ...	5,379,219	178,621	5,200,598
Excess to current requirements	791,856	64,890	726,966
Time expired (explosives, batteries, etc.)	372,608		372,608
Miscellaneous	1,189,263	48,116	1,141,147
	<hr/> *28,956,581	<hr/> 715,106	<hr/> 28,241,475

*Includes: (1) Declarations relating to explosives, etc., disposed of, in entirety, by destruction\$ 401,778

(2) Items not processed by Crown Assets Disposal Corporation until 1963-64 .. 787,200

That is the extent of my statement, Mr. Chairman, at this time.

The CHAIRMAN: Thank you, Mr. Henderson. I am sure the committee is very grateful to you for the very comprehensive and detailed analysis you have made. Questions can be asked later on in regard to this statement.

I am now going to ask Mr. Armstrong if he has any comments to make on this. If you branch out into a general aspect, it is perfectly all right, Mr. Armstrong.

I do not think I need to introduce Mr. Armstrong to the members of the committee. He has been before this committee and others, and he is well known to you. I think he is particularly well qualified, by virtue of the various positions he has held with the department and, of course, now as deputy minister, to deal with this matter which concerns the committee.

Mr. E. B. ARMSTRONG (*Deputy Minister, Department of National Defence*): Mr. Chairman and gentlemen, I have only a few general remarks that I would like to make in relation to the statement Mr. Henderson has just made.

First of all, the nature of the defence business generates a considerable volume of surpluses. This is because defence is a major user of stores and equipment which become surplus in one form or another when they have served their original purpose. There is a continuous process of technological improvement which results in surpluses of equipment and material that is replaced. There are also changes in operational concepts and military programs from time to time which give rise to surpluses. It is necessary to maintain war reserves which are likely to become surplus in whole or in part. When new and complicated equipments are introduced, logistics managers must assess the requirements for support where there may be little or no direct experience on which to base their calculations and judgments. Under these circumstances, it would be miraculous if both under and over provisioning did not result. As often it is not economical to maintain continuing sources of supply of specialized military items, it is frequently necessary to buy against considerable periods of time in the future, sometimes for the estimated life of the equipment, with all the uncertainties that are inherent in this. The department attempts to deal with this problem on two fronts:

1. By constant attention to its supply systems with a view to eliminating as many problems at their source as possible.
2. By continuous review of its inventories to dispose of surpluses where they have occurred and thereby reduce administrative and storage costs.

For example, on the first front, improvement in cataloguing systems, emphasis on off-the-shelf procurement where practicable, the use of standing supply contracts and the increased employment of electronic data processing equipment all lead to lower stockpiles in military depots and to reductions in quantities of material becoming surplus. A vigorous program of disposal of surpluses reduces storage costs. For example, in the last few years the R.C.A.F. have been able to terminate aircraft storage operations at Fingal, McLeod, Claresholm, Vulcan and MacDonald and declare these properties surplus.

It should be appreciated that the value of the surpluses listed in the statement given by Mr. Henderson is based on the original cost which by and large has little relationship to the market value at the time of disposal. In the summary table, \$21,223,635 is shown as the original cost of items under the heading "Changes in Operational Requirements". This includes the following:

R.C.N.—World War II Harbour and Seaward Defence Equipment	\$ 3,591,628
Army—World War II vehicle spares, heating equipment machine tools and eyeshades	\$ 483,048
R.C.A.F.—Spares for Harvard, Mitchell, Sabre, CF-100, Canso and Lancaster aircraft	\$ 4,459,748
—Orenda engine spares	\$ 2,076,171
—World War II explosives	\$ 499,163
—Fire control equipment for Mitchell, CF-100 and Sabre aircraft	\$ 3,607,171
—Spares for heavy ground radars phased out of service	\$ 3,725,394
	<hr/>
	\$18,442,373
	<hr/>

The heading "Spares for Equipment No Longer in Use" totals \$5,379,219. This includes:

R.C.N.—Airframe parts and accessories for Avenger and Banshee aircraft	\$ 1,526,825
—World War II ammunition	\$ 230,863
Army—Automotive spares largely World War II Types ..	\$ 1,686,557
R.C.A.F.—World War II anti-friction bearings	\$ 79,660
—World War II Generating sets	\$ 59,500
—Electronic parts for heavy radars phased out	\$ 884,940
	<hr/>
	\$ 4,468,345
	<hr/>

The heading "Excess to Current Requirements" totals \$791,856. This includes:

R.C.N.—Carburetors & aircraft engines for Avenger aircraft	\$ 47,285
—World War II gunsighting equipment and telecommunications spares	\$ 140,831
Army—Automotive spares—largely World War II	\$ 181,313
—World War II nuts, bolts, screws, etc.	\$ 162,223
R.C.A.F.—Aircraft electrical items—phase out of "Hornet" rifles	\$ 16,106
	<hr/>
	\$ 547,758

The heading "Miscellaneous" totals \$1,189,263. This includes:

Army—Plumbing and Heating—World War II balance of stocks from close out of Montreal depot	\$ 109,522
—World War II electronic equipment and binoculars	\$ 558,175
R.C.N.—Missile spares "Velvet Glove"	\$ 100,000

The Velvet Glove was developed some years ago but it was not adopted. Those items total \$767,697 of the \$1,189,263. I merely mention these, Mr. Chairman, to illustrate to the committee that these items are, by their very nature, not likely in many cases to have a significant market value at the time they are disposed of.

Thank you, Mr. Chairman.

The CHAIRMAN: Thank you very much, Mr. Armstrong.

Mr. Richard has with him two officers, Mr. Mackinnon, the assistant general manager, and Mr. Mondor, the comptroller. I am going to ask Mr. Richard to introduce them, and when questions are asked some will be directed to these gentlemen who have special knowledge of certain matters, and other matters may be dealt with by Mr. Richard.

Mr. LOUIS RICHARD (*President and General Manager, Crown Assets Disposal Corporation*): Mr. Chairman, I just want to add a few remarks to the comments made by the Auditor General and to those made by Mr. Armstrong. I have prepared a short statement here which may repeat some of the things they have said, but I shall make my complete statement to the committee.

In addition to the comments made by the Auditor General on the surpluses reported to Crown Assets Disposal Corporation in the years 1962-63, and to the comments made by Mr. Armstrong, I would like to say in reference to the items categorized in our "A" condition codes, that the corporation feels some remarks should be made concerning the nature of the articles which are coded in this manner and the difficulties inherent in the marketing of them.

I would like to stress that much of the surplus which was analysed, amounting to approximately \$29 million, consists of military equipment and stores of one type or another manufactured and designed to military specifications, having little or no commercial application. Consequently, they cannot be sold as articles of use. Their value, therefore, is in the basic material content. This applies particularly to military aircraft, engines, instruments, including fire control systems, gun sighting equipment, training simulators, and so on, and parts for all these. It also applies to items of electronics which, in addition to being designed for a special purpose, are usually completely obsolete and will

not even fetch reasonable scrap prices because of their compounded contents. So the sale of a great deal of this military surplus has been made on the basis of the recovery of the value of the basic material contents and the salvage, and prices realized in most cases do not bear any reasonable relationship to the original costs.

The CHAIRMAN: Thank you, Mr. Richard.

Gentlemen, any comment or questions will now be in order. You can direct them to Mr. Armstrong, Mr. Richard or his officials, or to Mr. Henderson.

Mr. HALES: Will these statements appear as appendices to the day's proceedings?

The CHAIRMAN: They are included as part of the record by having been read.

Mr. PRITTIE: Did Mr. Henderson work out the percentage realized to original cost? Would it be two or three per cent?

Mr. HENDERSON: I have not worked it out but that is approximately what it would be, Mr. Prittie.

Mr. PRITTIE: I think one can accept the statement of Mr. Armstrong that these things do become obsolete so far as military requirements are concerned, and there are various reasons for that. However, concerning the recovery prices, I notice that Harvard aircraft parts were mentioned here several times, and it seems to me that this particular item is still in general use in the country in a great many places for that reason, probably the parts should fetch a better price than some of the other equipment which is being disposed of. I think I am right in saying that Harvards are quite generally used in many places in Canada; they are not really obsolete in that sense. These parts could be used on Harvard aircraft. This seems to be one item that should fetch a better price.

The CHAIRMAN: Mr. Prittie, are you directing your question to Mr. Armstrong.

Mr. PRITTIE: I think to Mr. Richard, since he is here speaking for his corporation, which is concerned in the actual sales. I am referring to an item which really is not obsolete so far as general use is concerned.

Mr. ARMSTRONG: Could I comment on this. My comment will be a general one. Frankly, I do not know how many Harvard aircraft are in use commercially in the country. Of course, the air force continues to use the Harvard. It has gone through a number of different marks and, presumably, some of these spares are in respect of Harvard aircraft manufactured during the war.

Of course, we do maintain spare parts for the ones we retain, and these would be other surpluses. I think probably you would find a rather odd assortment in terms of the types which might be required at any particular time, and you might not have a demand for this particular one. Commercially, I do not know what the demand is in the country. Perhaps Mr. Richard would like to comment on this.

Mr. RICHARD: I think the last remark of Mr. Armstrong is really to the point. The question is: "What demand is there for these parts?" There are still Harvards in use in this country but not in large quantity. We have had a few at various times. The demand for the planes is not what you might expect, and that applies, of course, to the stocks of spare parts which, I think, are plentiful.

Mr. HALES: Mr. Chairman, first of all, I think the committee would like to express its appreciation for the tremendous amount of work and research which the Auditor General's department must have put into this very important subject which I believe Mr. Winch originally brought to the attention of the committee.

I note that the research which the Auditor General has completed in respect of this subject refers to only 81 per cent of the over-all sales, but out of even 81 per cent the loss is \$28,241,475. So, this is a matter of some magnitude and I think the committee is quite concerned about this tremendous loss and the very dismal picture which is presented to us in respect of this surplus equipment.

I appreciate what Mr. Armstrong has said in respect of the loss in military equipment. But, in order that the committee in future years can follow this more closely in its study I think we should ask the Auditor General what steps could be taken to have a running record kept of the disposal of this equipment so at the year end this information would be readily available to us.

As I stated, this study must have involved an awful lot of work, and in order to get around that I think perhaps Mr. Henderson could give the committee some idea where we could go from here in order that the situation might be improved in the future.

Mr. HENDERSON: Mr. Hales, you have raised a very important point and one to which I have been giving some thought.

I may say that we looked back over the volume of equipment which has been declared surplus by the Department of National Defence to Crown Assets Disposal Corporation for the past six years because if it were \$39½ million for the year we are looking at now, 1962-63, and we find it producing a loss of this magnitude naturally I wondered what might have been the history over prior years. I find, in going back to 1957, that the average figure of surplus items declared by the Department of National Defence to Crown Assets Disposal Corporation has averaged about \$26½ million a year. So, we have here a continuing problem of considerable magnitude.

The work entailed in following through these items is quite substantial and certainly is not something that I would wish to be charged with doing on any regular sort of basis. I suppose the most effective way of bringing these figures to attention is to make a complete disclosure each year, either in the public accounts of Canada, or in the form of some summary in my own report to the house perhaps, in the way I list non-productive expenses in accordance with the committee's direction, or by some other means. That brings up the question how should this be done. Thus far, the only suggestion I would like to make to the committee and to hear discussed—I would particularly like to hear the views of Mr. Armstrong and other deputy ministers who also would be involved—is this: Could the departments of the government declaring their material surplus be asked to prepare annual statements in which they would show not only the type of things that they have declared surplus but also their original cost and then obtain, through Mr. Richard's office or through whatever other sources through which they might dispose of their surplus, the amounts realized thereagainst. In other words, they would be responsible for the production of this statement setting out the end result of disposals of goods which, in fact, they had purchased through their parliamentary appropriations in the first instance. If something like this was done then it would be possible, in effect, to produce a consolidated picture for the government as a whole each fiscal year. This might prove informative and interesting to you and to the taxpayers of this country by disclosing the size of such disposals and the amounts realized.

I am sure that everyone has a full appreciation of what Mr. Armstrong says about the reasons for disposal. I have no hesitation in saying that I feel sure Crown Assets Disposal Corporation certainly has exercised its best offices in trying to get the best prices. But, there does seem to me to be a point of responsibility here, which should be placed on the departments which, in fact, were responsible for purchasing the material in the first instance, to at least

follow through and find out the amount which is realized. This could be the subject of a recommendation by the committee, Mr. Chairman, if the members share this view—and, of course, if such a proposition were feasible. Perhaps Mr. Armstrong would care to comment on this.

Mr. ARMSTRONG: In so far as the Department of National Defence is concerned, I am sure members of the committee appreciate that in the wording of the national defence vote this year the proceeds from the disposal of surplus equipment and material may be credited back to the vote. Therefore, there will be a record in the department of the receipts from those disposals. So, so far as the information is concerned, coming back to the department, I presume we would have a record of it.

There always is a bit of a problem here, which obviously was encountered in Mr. Henderson's examination, namely, that of timing in the sense of when the materials declared surplus are sold, and so, and putting it together on a time phased basis.

But, if the committee feels it is desirable to have those total figures, I think we would have them available in the future. However, that does not apply necessarily to other departments. This particular arrangement at the moment applies only to the Department of National Defence.

The CHAIRMAN: Would you proceed, Mr. Hales.

Mr. HALES: You mentioned something about cost and attention to purchases in your department. This seems to be the crux of the whole thing. We are buying stuff that is not used and not needed, and I think this is pinpointing the problem.

Could you advise the committee what steps you did take, say, within the last four or five years, to watch your purchases more closely in view of the fact you have had an average of 26½ million declared surplus back to 1957?

Mr. ARMSTRONG: Mr. Hales, I would agree that we do buy things that are not eventually used in the sense of actually consumed. But, I think there is a difference between buying things that are not used and not needed. There are circumstances under which we must buy items in the Department of National Defence against certain contingencies and if they do not occur—and, by and large we hope they do not—then the items are not used and they become surplus when that equipment is replaced.

In terms of the kind of steps we have taken to improve our supply systems, it is difficult to go into this in great detail. However, there have been quite a substantial number of improvements that have occurred over the last five years. These improvements are based partly on the experience of the earlier years. I mentioned the problem of buying spare parts when you bring a new aircraft, say, into the inventory and it is necessary to determine in advance before you have specific experience in the flying of that aircraft the spare engines and other things that are required and will be necessary if you are to be in a position to keep the aircraft flying. And, after all, this is an essential so far as we are concerned. But, as I say, the experience of the earlier years has been built into the systems that we now are using. I think there has been a substantial improvement in terms of the kind of back up that is purchased in these instances.

Now, having said that, I would say at the same time inevitably there are going to be some cases of buying too much and other cases of buying too little, but buying too little is perhaps even more dangerous than buying too much in our business. If you have a valuable airplane on the ground because you cannot supply it with an essential part it is a very substantial loss, as I think you will agree.

In respect of commercial vehicles, which we use substantially, we do not stock the parts any more; we get them off the shelf, through standing contracts, we have applied this procedure to a large number of items where it is practical and where you do not need a specialized military production line to supply the item. This has reduced stock levels and has helped us to avoid a position where ultimately we would end up with a surplus.

We have employed data processing computers for handling this very large volume of business, as you know, at the air materiel command by the R.C.A.F. They have introduced data processing equipment. The Canadian army have not gone that far yet but they have employed mechanical devices for handling their logistics. The navy also has done so. But, when we are able to bring the supply systems together I think we will have a volume in every case which would enable us to use the very latest and best equipment available to handle these operations.

Now, when you do this you still need first class supply managers. Although the equipment does produce information you still have to make judgments and decisions. We always have had to some degree a shortage of people in this area. But, we have trained people and we have sent them to special courses and so on, as a result of which this situation has improved considerably as the years have gone by.

There probably are many other things that I could explain but these are some that occurred to me offhand.

I might say, on the other side of the coin, that we are driving now more than we did in the past to get rid of surpluses because surpluses really cost money by way of storage, maintenance and preservation and all the other things involved. Our systems and procedures and disposal of surpluses have involved pretty careful examination in respect of how the item got into the inventory in the first place, why it became surplus, and so on. This is quite a logical process but it takes a lot of time, particularly when dealing with the many items in the statement I made. These items go back a long, long way; in many instances they go back to world war II. We are putting emphasis now, to the extent we can, on simplifying for the man in the field his ability to get an item declared surplus, get it up to headquarters for declaration and so on.

Of course, I would say we do refer any surplus that one service has for examination by others before it is finally declared surplus from the department as a whole.

Perhaps there is one other item I should mention. Each of the services has spent a great deal of effort in the last 10 years on developing cataloguing systems and these in themselves are helpful in this area. In the next few years we will be spending a good deal of time in bringing these cataloguing systems all together so that we will have a single cataloguing system for the department as a whole which, I think, will be a substantial improvement.

MR. HALES: Under which heading does clothing appear? Is it "miscellaneous"?

MR. ARMSTRONG: I do not know whether or not there are any clothing items in here. There might be some.

MR. HALES: Would you give us the largest sale of surplus clothing under "miscellaneous" in this year under review?

MR. H. E. HAYES (*Divisional Head, Auditor General's Department*): There is an item for the navy that I recollect offhand.

THE CHAIRMAN: Could we have the name of the witness.

MR. HAYES: Mr. Hayes.

MR. HENDERSON: It may take a minute or two to look this up.

Mr. HAYES: The cost was \$99,000. This clothing was acquired in world war II and it was obsolete. It consisted of seamen's jackets. The amount realized was \$4,000. But, that was the only item.

Mr. HALES: How many seamen's jackets would that involve?

Mr. HAYES: We have no record of the quantity.

Mr. HALES: These cost \$99,000 and they were sold for \$4,000?

Mr. HAYES: Yes.

Mr. HALES: Mr. Armstrong, could you give us some idea why we would have this particular surplus?

Mr. ARMSTRONG: As was mentioned, that is a world war II item. Offhand, I could not tell you. I presume there were large quantities of this jumper left over from world war II.

Mr. HALES: Why would we keep them for 13 years?

Mr. ARMSTRONG: Well, that is a little surprising to me. I am not sure why we did.

Mr. PRITTIE: A supplementary question. Did the style or design change from what they are wearing now?

Mr. ARMSTRONG: Obviously, the design has changed. Normally, nowadays, when changing a design of clothing we work it out to the extent it is possible and use up the old style before the new style is introduced. But in this particular case of the world war II jumpers, I am not sure. I would have to go back and examine it in detail. I am sorry but, offhand, I cannot answer your question fully.

Mr. HALES: But you made the statement that you were trying to get rid of surpluses quickly and, therefore, not keep them around because it cost money to store these surpluses. But, this is not borne out in this statement, where the goods have been kept for 13 years.

Mr. ARMSTRONG: No. But, as I said, we are putting a great deal more emphasis on this today than we did a few years ago.

Mr. Hales, I might also say that in respect of all these items we always are faced with rather difficult decisions in the sense that in an emergency one could imagine, at any rate, that you could use almost anything, and it probably is right that you could and, in fact, if you did get into a war all these things are going to be short. Therefore, even though these things do not meet the styles of today, there is some reluctance sometimes to dispose of them. I just have mentioned a kind of contingency.

If I remember rightly, another thing that may account for this, at least to some degree, is that back perhaps seven or eight years ago stocks of clothing were maintained for mobilization purposes, and so on, and as the concepts and nature of war had changed somewhat we no longer maintained large mobilization stockpiles. This may have some bearing on this particular item.

Mr. HALES: I have one more question, the answer to which may take a little while to look up. In respect of the R.C.A.F. the amount under "miscellaneous" on page 4 is \$2,305,000 roughly. I would like to know the top three items that appear in that figure under "miscellaneous" and what they were for.

The CHAIRMAN: While that is being looked up you may proceed, Mr. Crouse, followed by Mr. Smith and then Mr. Tardif, with others to follow after that.

Mr. CROUSE: Mr. Chairman, some of my questions have been asked and answered. However, I would like to direct a question to Mr. Henderson. Could some of the losses on surplus military equipment be curtailed if the amount and type of equipment available could be advertised more widely among Canadian taxpayers? I notice in your report—upon which I would like to commend

you—that for this purpose the corporation maintains lists of prospective customers by class of material and equipment offered for sale, and these are the persons circularized. Then you say that this usually involves an approach to original tenderers in an effort to obtain higher offers. If the first offer is not acceptable is it possible that there are others in Canada who might be interested in this equipment, persons other than those who are apparently circularized? I notice, referring back to an earlier part of your statement, that you mention electronics spare parts, vehicle spare parts, aids to navigation, and so on. These items might be of vital interest, for example, to large shipping companies who might want to buy some of this electronic equipment for use on ships, or they may be interested in aids to navigation, and they may not be aware that this equipment is available because they may not be on the list of those who are circularized. Could you explain in a little more detail the methods used for tendering on this used equipment?

Mr. HENDERSON: The answer to your question, Mr. Crouse, should probably be given by Mr. Richard because it is the responsibility of Crown Assets Disposal Corporation to place that advertising and to sell this surplus equipment. The methods that he would employ in circularizing and advertising and doing everything he can to get the best price are, I repeat, his responsibility. Could you therefore address the question to Mr. Richard?

The CHAIRMAN: Mr. Richard, can you answer that?

Mr. RICHARD: Over the years we have had inquiries from almost everybody in the various trades, and we have built up lists of prospective purchasers which we circularize each time we have a certain lot in the category involved. These lists are fairly voluminous; in some cases they run to over several hundred names. I think we have almost everybody in the country who is interested in any of these lines. We welcome inquiries at any time, and we will be pleased to add to the lists at any time names of people in these various trades who are interested in purchasing from Crown Assets Disposal Corporation.

Mr. CROUSE: Would you not agree, Mr. Richard, that it would cover a lot more Canadians if lists of available goods were publicly advertised in some of our large Canadian newspapers so that all Canadians would be aware of the surplus? This might result in receiving better bids for some of these surplus goods than you are now receiving. Would you not agree that this would be a better way of bringing it to the attention of more Canadians?

Mr. RICHARD: We do advertise in many large newspapers. Newspaper advertising is very expensive, and it would not be warranted where the possible recovery is not exceptionally large. The recovery involved must warrant spending money on advertising. We do advertise large items such as boats and aeroplanes and, of course, lands and buildings. For us to advertise, the items must be of sufficient importance to warrant spending money for the advertising.

Mr. CROUSE: Mr. Hales touched upon one item of some \$90,000 of clothing which was sold for \$4,000. Can you tell us if the notice of this surplus was sent only to a special list of people, or was this item publicly advertised?

Mr. RICHARD: I do not know offhand; I cannot say. However, I doubt that it would have been advertised. On the other hand, I think our lists are sufficiently large to include all dealers who might be interested.

Mr. HALES: I raise the point simply because \$90,000 odd of clothing sold for \$4,000 seems to be a very small realization.

Mr. RICHARD: Clothing that has been around for 20 odd years is not likely to fetch a very high price—and it was probably used clothing at that.

Mr. HALES: Do you feel your present methods of advertising surplus materials are satisfactory and that they cannot be improved upon?

Mr. RICHARD: Oh, everything can be improved upon. However, we think we are hitting the proper medium.

The CHAIRMAN: Mr. Tardif, you have a supplementary question?

Mr. TARDIF: The two or three firms which called me must have been exceptions that proved the rule in so far as the statement you have just made to the effect that you notify all the firms who are interested. Several firms called me and said they wanted to bid but were refused permission to do this, even if they supplied to the department a banker's statement to the effect that they were able to pay. When I called your department they said at that time that they had enough people on their list and did not want to add to it. This does not appear to me to be the best way to obtain the best possible price.

I have another question before you answer the first one. I do not share your opinion that advertising material for sale is not a method which would lead to obtaining a better price. I do not know how you base your decision for doing this. I was wondering, when you do advertise, whether you establish a reserve price on the material you are going to offer for sale and, if you do not establish a reserve price, how you explain that you negotiate again with the tenderer so that you can have a better price. This is not an ethical method accepted by the tender system. In the trade, actually, it is considered to be and is called peddling. I think it is a very bad example for the dominion government to do any peddling. I wonder if you have any explanation of that.

Mr. RICHARD: First of all, have we a reserve price? We do not call it a reserve price as such, but we do know that having sold goods of that nature before and having been able to obtain a certain price, the results of a particular offering may be too low compared with past experience or with goods of a similar nature, and therefore we do not accept the highest price given if it is not sufficient.

Mr. TARDIF: Then that means you have a reserve price.

Mr. RICHARD: Yes.

Mr. TARDIF: You establish a reserve price before you ask for tenders?

Mr. RICHARD: We do not accept any price given to us.

Mr. TARDIF: I was not asking if you accept any price; I was asking whether you establish a reserve price before you ask for prices.

Mr. RICHARD: No.

Mr. TARDIF: You do not establish a reserve price?

Mr. RICHARD: No. We do establish one when we see what is the result of the bidding. It is the same thing. We determine whether this price is satisfactory in the light of our experience of past offerings. Surely we are not to accept any price given to us if it is too low.

Mr. TARDIF: I would not want you to give anyone the impression that this is what I suggest; what I suggested by my question was that you should establish a reserve price before you put the merchandise on sale rather than establishing a reserve price while you are in the process of dealing with someone who wishes to purchase surplus material.

Mr. RICHARD: We certainly have a darned good idea what it is going to fetch.

Mr. TARDIF: You may have a very good idea, but to me that looks most irregular.

The CHAIRMAN: Mr. Smith.

Mr. TARDIF: Mr. Richard did not finish answering my questions. He did not answer the first question I asked. Perhaps I should have separated them.

When a person establishes ability to pay, why is he not allowed to tender?

Mr. RICHARD: Ability to pay has nothing to do with it. We ask the high tenderer to pay cash immediately, and if he is unable to pay we go to the second bidder or ask for new bids. Therefore his ability to pay has nothing to do with it.

Mr. TARDIF: How do you know whether the man you have refused permission to bid would not be the highest bidder?

Mr. RICHARD: We do not refuse permission to bid to anyone who is in the trade. First of all, I should say that we do not retail merchandise; therefore we will not offer goods of, say, plumbing and heating equipment, to a grocer or something of that nature. We do not retail goods either; we will not accept any bid from an individual on certain types of merchandise which we have in quantity because it would be too expensive to sell piecemeal like that. However, anyone who is in the trade is welcome to bid.

Mr. TARDIF: I would not like to say that Mr. Richard is evading the question because I do not think he is, but suppose the fellow is a grocer and has sufficient money to buy the total lot and wishes to bid at a higher price than someone in the trade, would you refuse the bid?

Mr. RICHARD: We will not invite him to bid on something that is not in his line.

Mr. TARDIF: The people complaining to me were not complaining about not being invited; they were complaining about not being accepted. I do not say a grocer was getting plumbing equipment—

Mr. RICHARD: If you know of cases of that kind I would like to hear about them.

Mr. TARDIF: I have not the information here but I personally called your department and that was the answer I received.

You did not answer my question about it being a good or bad practice to peddle the bid.

Mr. RICHARD: I think the Auditor General has said that this is only occasionally the case, or something like that. However, that happens where the offers received are indeed much too low.

Mr. TARDIF: I have another question which I would like to put to you just for curiosity, and then I will give someone else a chance. How do nuts and bolts and screws become obsolete?

The CHAIRMAN: Perhaps we should let Mr. Smith put some questions here, and that will give Mr. Richard an opportunity to think over that question.

Mr. TARDIF: Then will he also think about how plumbing fixtures become obsolete. Is it a case of the new type of toilets that do not rest on the floor making the old type obsolete?

Mr. ARMSTRONG: I should attempt to answer that question because it seems to be directed to the Department of National Defence.

When you ask how nuts, bolts and screws become obsolete I suppose my answer should be that in a sense they do not become necessarily obsolete. However, I can conceive of a situation in which you might have a type of bolt used for certain types of equipment that become obsolete when the equipment goes out, and which may not be suitable for other equipment; and therefore one would dispose of them.

With regard to the plumbing and heating, this was the story of a depot in Montreal. Following the Currie report back in 1951-52 we brought together the engineering supplies and put them in one depot, based on the recommendation of that report, in order to get better control of them. Subsequently, as they were used up there were some plumbing and heating items left over. These

items were purchased during world war II and were all examined. There were bits and pieces, couplings and other sorts of things, and as we had no economical use for them they were declared surplus. Whether or not you consider them obsolete I suppose is a matter of definition.

Mr. SMITH: I have a question for Mr. Richard. On page 6 of Mr. Henderson's statement are these words:

Sales on this basis are made with priority purchasers, such as federal or provincial departments or agencies, municipal bodies, and so on.

If I could apply this to real estate, of which quite an amount has been declared surplus in view of certain changes being made in the Department of National Defence, would Mr. Richard explain the system that is used for the disposal of surplus real property and relate this to the priorities that are suggested on page 6 of Mr. Henderson's statement.

Mr. PRITTE: There is not any real property in this list.

Mr. RICHARD: No, there is not. But, in the case where a property is referred to us by the Department of National Defence as surplus I should say, first of all, that it generally has a note on it of some people who already are interested in it. This may include a provincial government, a municipal government or some other organization enjoying a priority under this classification. In that event, if any of these are mentioned, we immediately communicate with them and will negotiate with them a fair market price, based generally on an expert evaluation that we would obtain from outside. In that sense we do not offer it to the public.

Mr. HARKNESS: Mr. Richard, would you speak a little louder please.

Mr. RICHARD: In that sense we do not offer it to the public. Does that answer your question?

Mr. SMITH: Suppose a provincial authority, a municipal authority and some other public or semi-public body had an interest in a particular piece of property, do you have a system of priorities upon which you work?

Mr. RICHARD: Oh, yes. The higher class of government will have the first preference. Preference will be given first to departments of federal government; if none of them are interested, then the provincial governments will have the next priority and, if they are not interested, the municipal authorities have the next priority, and so on.

The CHAIRMAN: Have you a question Mr. Southam?

Mr. SOUTHAM: Yes, Mr. Chairman. However, several of the questions that I was going to pose have been put and answered.

I would like to associate myself with the comments of Mr. Hales and extend my appreciation to the officials who have appeared before us this morning for the excellent job they have done in getting this fine summary together so that we could review it at this meeting. I realize that it necessitated a considerable amount of concentrated work in a very short period of time.

I would like to follow through and support what Mr. Henderson has said, that we should adopt a policy of having a summary or something fairly well itemized, perhaps similar to what we have here or a little more explicit, which could be put before the committee. I think this would serve a very good purpose. The reason we have these gentlemen here this morning is that there has been a certain amount of scepticism. There is possibly an unhealthy attitude on the part of some of our taxpayers that this is not exposed enough in order for us, their representatives, to ascertain what is going on. I, as a member of parliament, do not like to see these criticisms. I think it would be in the best interest of everyone concerned if we had a more detailed statement in this connection. I have noted the amount realized in respect of the original cost. We

have here an amount of \$28,956,581 as the original cost and the amount realized is roughly, \$715,106 which is 4 per cent or, in other words, a loss of about 96 per cent. This would seem to me to be a little out of proportion.

I do realize, after the discussion which has gone on, that there is a lot of stuff that would be obsolete or almost so. However, reverting to this item of plumbing and heating in "miscellaneous" I think it would take quite a long time before these items would become obsolete. In these cases I think we should aim at a recoverable amount of, say, 10 per cent or something beyond that, rather than being content to have it stay at 4 per cent. I think if an annual statement of this type was submitted year by year we gradually would increase the realizable net disposal figure. As I have stated, I would like to support Mr. Henderson's suggestion in this regard.

The CHAIRMAN: Thank you, Mr. Southam. Mr. Harkness follows, followed by Mr. Prittie and Mr. Francis.

Mr. HARKNESS: Mr. Armstrong, roughly two thirds of this amount of \$28 million concerned R.C.A.F. equipment. I presume the great bulk of that is attributable to planes which now have gone out of service.

Mr. ARMSTRONG: Yes. Certainly the bulk is attributable to planes that have gone out of service.

Also, as you will recall, there were heavy radars that went out on the Pine Tree line, which accounted for something like \$4 or \$5 million of it. But, the bulk is quite clearly due to airplanes and the supporting parts which have gone out of service.

Mr. HARKNESS: The Auditor General gave us a figure of an average of \$26½ million from 1957 to 1961. Would it also be true that the great bulk of that was R.C.A.F. equipment and was attributable to planes which had gone out of service?

Mr. ARMSTRONG: I would guess that that is so. Although I feel fairly certain this would be the case, I would not like to be definite on this without really going back and looking at it.

Mr. HARKNESS: And, as has been pointed out, these R.C.A.F. planes have gone out of service and the spares for them, have an extremely limited sales value because they mostly have to be sold for scrap, which to a very large extent would explain the fact that there is such a low recovery value.

Mr. ARMSTRONG: I think unquestionably that is so.

Mr. Richard just has pointed out to me, in respect of the plumbing equipment, that the recovery was 18.1 per cent.

Mr. HARKNESS: Does this particular figure for 1962-63 include the CF-100 planes which were scrapped during that period, and the spares that went with them.

Mr. ARMSTRONG: Yes, it includes the CF-100, the Sabres, Mitchells, Lancasters, Cansos, as well as a few Harvards.

Mr. HARKNESS: Would the CF-100 planes and spares disposed of during that period constitute a material percentage of the \$18 million?

Mr. ARMSTRONG: Let me make one point clear; this does not include whole airplanes but includes engines, spare parts, fire control equipment and so on, which does constitute a substantial proportion of the total.

Fire control equipment for the Mitchells, CF-100's and Sabre aircraft, which was included in this list, amounted to \$3,607,000, original cost; the spare parts for the Mitchells, Sabres, CF-100's, Cansos and Lancasters amounted to \$4,459,000, original cost; the Orenda engines that were included amounted to \$2 million, so quite obviously this does represent the bulk of the total.

Mr. HARKNESS: Have you any estimate of how much of the roughly \$130 million in the period 1957 to 1961, plus this \$28 million, would be attributable to second world war purchases?

Mr. ARMSTRONG: I could not make a guess on it. I would have to look it up. It would be quite a job to go back and examine it in detail.

Mr. HARKNESS: I think you would have some rough idea. Would it constitute a quarter or a half?

Mr. ARMSTRONG: I would feel it would constitute certainly a quarter and probably more than that.

You will recall that a great deal of the world war II equipment that we held after the war was transferred as mutual aid.

Mr. HARKNESS: Yes.

Mr. ARMSTRONG: And, various packages of spares and so on were allocated for that purpose.

The next surplus included various items of equipment which were not acceptable by NATO countries for mutual aid or they did not need them. These were declared surplus and, unquestionably, constituted a very considerable proportion of this.

Mr. HARKNESS: Well, the point I was getting at is that the large size of this figure is attributable to world war II purchases and subsequent technological advances which made the equipment used at that time no longer usable, as a result of which you perhaps have a considerably larger figure than you would expect owing to these factors.

Mr. ARMSTRONG: Yes, I would think that is true. I think these figures probably are larger than the continuing ones. But, perhaps when you get the statement from year to year it will prove I am wrong. We always have technological improvements and alterations which result in some surpluses. However, I would expect these would tend to go down as time goes by, except for one other factor which I should mention. We are talking about original costs as they pertain to world war II and the airplane today costs so much more money perhaps the dollar figures will not go down. But, I do not know.

Mr. HARKNESS: I have one other question. Is the size of the disposal in 1962-63 in the amount of \$39½ million, as compared to the average for the period 1957 to 1961, due to a considerable extent to the recommendations of the Glassco commission that a good deal of the material which was still being held was costing far too much to hold in warehousing, and so on, more than was justifiable and, therefore, the department should get rid of it.

Mr. ARMSTRONG: That is true. I think you yourself are aware that after the Glassco commission came out with their recommendations we put considerable emphasis on getting rid of surpluses because of the economics of holding items. The department has made some changes in their methods and have put a drive on to get rid of as much of this surplus material as we can. This probably will account for these figures not only being higher in this particular year but in going up, I think, for a year or two because of just simply getting rid of things that we feel we should get rid of on economic grounds.

Mr. HARKNESS: Because of warehousing costs?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: Mr. Prittie is next, followed by Mr. Francis, after which I will ask for the reply to Mr. Hales questions.

Mr. PRITTIE: I have one question to direct to Mr. Richard and two questions to direct to Mr. Armstrong.

In respect of the sale of aircraft parts and engines—and I am thinking particularly of Harvards and possibly Cansos which are types which can be used—is your list restricted to Canadian purchasers? The reason I ask the question is that there are other parts of the world where this equipment is used for a longer period of time than in Canada.

Mr. RICHARD: Oh, yes, there is a great number of American purchasers on our lists. There are hundreds of them.

Mr. PRITTIE: And, would these be people who might market these items elsewhere, say in Latin America and other parts of the world?

Mr. RICHARD: Oh, yes. We do not solicit in the United States but we do accept inquiries from American firms and will give them an opportunity to make offers.

Mr. PRITTIE: You do not advertise in the aircraft trade journals for example?

Mr. RICHARD: Yes, in Canada at times, but not in the United States. It would not be quite cricket for the Canadian government to offer surpluses in the United States. I believe there are certain laws which are rather stringent in the United States against surpluses even from their own country as well as from other countries.

Mr. PRITTIE: Do you get inquiries from the United States from people who market aircraft engines?

Mr. RICHARD: Yes, we do sell to them, too.

Mr. PRITTIE: Mr. Armstrong, the figure for the year under review has been mentioned as a fairly high one. Would you be able to say if most of the world war II equipment has now been disposed of?

Mr. ARMSTRONG: There is no question that most of it has been disposed of but I am sure there is still some on hand that will eventually be disposed of. However, certainly the vast bulk of it has been disposed of.

Mr. PRITTIE: Some reference was made to the future and to likely surpluses in the future. Can you think of any major piece of equipment in the R.C.A.F. at the present time which would be in this category in the next two or three years—a particular type of aircraft, electronic equipment in large quantities which will be no longer required by the service or any major line of aircraft?

Mr. ARMSTRONG: We will have surplus Harvard aircraft as the Tudors are introduced. The Harvards are now the basic trainers, and when the Tudor comes into service those Harvards will become surplus. I would expect some others. For example, I would expect some of the T-33's would undoubtedly become surplus. We will probably have additional CF-100's and Sabres that will become surplus in the future, but just exactly when I would not like to say. Obviously, they will be becoming surplus over the next few years.

Mr. PRITTIE: Are you able to sell complete aircraft? Are you able to sell T-33's and CF-100's complete? Who wants to buy this type of aircraft?

Mr. ARMSTRONG: As you probably know, we have given away some T-33's as mutual aid, and it is possible that some countries would like to buy the T-33's. I would not like to say offhand which ones would be interested, but it is conceivable that there will be a market for it.

Mr. PRITTIE: Is there any equipment in the Canadian army that is likely to be in this large scale surplus position in the next couple of years?

Mr. ARMSTRONG: I cannot think of anything offhand that we will be declaring on a large scale. Undoubtedly there will be equipment declared as it is replaced.

The CHAIRMAN: Mr. Francis, and then Mr. Hales.

May I suggest, gentlemen, that every opportunity be given to complete the examination of Mr. Richard so that we can finish that this morning and go to matters of the Department of National Defence this afternoon.

Mr. FRANCIS: I have a question that I would like to direct to the Auditor General. Under the final summary of surplus items under review there is one item that puzzled me, and that is time expired explosives and batteries the original cost of which was \$372,000 and yet nothing was realized. It seems to me strange that there could not be some realization on batteries.

Mr. HENDERSON: I think that is a question possibly for Mr. Armstrong or Mr. Richard. That is the categorization given for the reason of disposal, and I suppose they did not figure they had very much resale value.

Mr. FRANCIS: I would direct that to whoever can answer it.

The CHAIRMAN: Mr. Armstrong?

Mr. ARMSTRONG: So far as the explosives are concerned, as you can see they are time expired. So far as batteries are concerned, I do not know the answer. I assume that the battery being time expired would not be of any value; it would have to be remade to make it useful.

Mr. HARKNESS: A lot of these would be dry batteries.

Mr. HENDERSON: Yes, some would be dry batteries.

The CHAIRMAN: Are you able to shed any light on this, Mr. Richard?

Mr. RICHARD: Not without referring to the list and seeing what constitutes this amount of \$372,000.

Mr. HAYES: This amount is a general categorization. There is no amount for batteries or anything like that. This is a general categorization with which we start.

The CHAIRMAN: Have we answered now to the questions Mr. Hales asked?

Mr. HENDERSON: I will ask Mr. Smith if he will give those answers.

Mr. SMITH: The request related to the table, at the top of page 4 of the statement, specifically to the R.C.A.F. item opposite the miscellaneous category. The declarations involving the six largest amounts in descending order were as follows: the first one involved gunsights computer, special tools, test equipment for armament systems, fire control systems, and target-towing equipment. The amount involved in the original cost was \$341,548, and the amount realized was \$757. The second item involved generators, ground handling equipment and so on, and aircraft spares and equipment. The amount involved in the original declaration was \$296,653 and the amount realized on disposal was \$19,081. The third item involved aircraft system trainers. The original cost was \$280,763 and the amount realized was \$974. The fourth item deals with Velvet Glove missile spares, and so on, and guided missile tools and test equipment. The original cost was \$156,500 and the amount realized was \$11,960. The fifth item concerns electronics, guided missile test equipment, Browning machine guns and miscellaneous. The original cost was \$141,582; the amount realized was \$414. It should be pointed out in connection with this particular item that some of the Browning machine guns were destroyed. Time did not permit our identifying the cost of the destroyed machine guns. The sixth item deals with electronic and ground handling equipment acquired at a cost of \$132,471, and the amount realized was \$252.

Mr. FRANCIS: I am willing to recognize, Mr. Chairman, that one cannot dispose of Browning machine guns to the highest bidder!

Mr. HALES: I think, Mr. Chairman, that bears out the tremendous loss suffered on resale of this equipment; and we come back to our original problem, which was brought to our attention by Mr. Armstrong, that owing to the great technological changes that take place we are stuck, and that is about it.

Mr. Armstrong said that in the next few years the loss on surplus sales should go down. If Canada were to renegotiate and withdraw from the use of nuclear weapons, in what position would we find ourselves in regard to the resale of surplus equipment? Granted, the nuclear arms do not belong to Canada, but we have to supply the equipment on which they are used.

The CHAIRMAN: That is part of the general discussion and I will let Mr. Armstrong answer that, but I think it might be leading us into a difficult problem.

Mr. ARMSTRONG: It is hypothetical.

The CHAIRMAN: Mr. Armstrong can try to answer this in a general way.

Mr. ARMSTRONG: So far as nuclear weapons are concerned, of course the aircraft themselves are capable of carrying conventional weapons. The question is whether one declares them surplus if one does not have nuclear weapons; presumably one does not. There is a missile used in the Voodoo aircraft that has a nuclear weapon as a warhead. Those missiles are not usable unless one has a nuclear warhead. On the strike aircraft, of course, there are nuclear bombs. There are also special buildings to handle the new weapons—hangars and so on—but these are not things which involve extensive declaration of surplus. The valuable thing is the nuclear weapon itself, which we do not own.

The CHAIRMAN: I see Mr. Richard becoming quite alarmed at the thought of having to dispose of nuclear weapons in the next two or three years! I think we had better leave this topic.

Mr. REGAN: Mr. Richard, I would like to ask you what is the policy with regard to regional disposal of equipment. As I understand it, you have a number of offices across the country. I have heard some complaints from dealers in the trade—the junk trade and other trades—in the Halifax area that tenders for disposal of equipment in that area go to Hercules and such firms in the Toronto area, whereas they never get tenders on anything in any area other than the maritime region. Is that correct?

Mr. RICHARD: Not quite. We do not refuse anyone who wants to buy in any part of the country. Our field officers have lists of their own, but they may add names. The Halifax office may add the names of Vancouver or Calgary dealers who want to buy in the maritimes, and the Halifax dealers are welcome to buy in Calgary or in Vancouver or anywhere in the country. The only thing is to get the communications working and let us know they are anxious to do so.

Mr. REGAN: Then, in that event, they should contact the office in the other region? Is that correct?

Mr. RICHARD: That would be the best way, yes.

Mr. REGAN: I would like to turn to another aspect of this matter. I must say that I feel there is great advantage to your organization in not making equipment available to people who are not in the trade, contrary to the earlier discussion. For one thing, as I understand it, sometimes you might wish to dispose of so much equipment in the construction trade that, if it was disposed of other than through the trade, if for example it was disposed of to a grocer who wanted to flood the market with it, it would upset the general market in two or three provinces for some time. Therefore it is in the general economic interest not to disturb general channels of trade by disposing of it through other than junk dealers or the regular trade. Is that part of your consideration?

Mr. RICHARD: The policy we have followed since the early days of War Assets Corporation is not to disturb the markets for the various Canadian trades.

Mr. REGAN: Well now, I find a disturbing trend in the maritime region, (a), to give a tender to anyone who wants it even though they are not a registered junk dealer and, (b), to put out tenders in such small lots that the paper work involved must surely amount to more than the recovery. For instance, in the Halifax office you have had tenders for such things as two chairs, a piece of hose, one dozen bolts and a small heater for a truck. This apparently is a relatively recent trend and, in my opinion, an unfortunate one. The junk dealers find it very undesirable to have to travel to Gagetown, for instance, to look at one small item, whereas if there were a number of items there at the same time it would be less costly from their point of view. It is to your interest to have efficient junk dealers in a position to take over almost any sort of item and give you a relatively good price for it and, in view of what I have said, I think this is a very undesirable development which has taken place. Is it national policy to break this equipment down into small lots, as happened in the case I mentioned, or does it merely happen occasionally?

Mr. RICHARD: We do try to bunch several declarations together and endeavour to offer a reasonable lot to purchasers. But, of course, we have to deal with surpluses as they come along and we try to clear these surpluses out of the military depots as quickly as we can. It is a case of whether it is more advantageous to do it one way rather than another.

Mr. TARDIF: Surely that would not come under the heading of selling wholesale, would it?

Mr. RICHARD: We sell to wholesalers. We sell what we have given to us.

Mr. REGAN: To follow that up, when you say you sell wholesale I might mention that recently you sold a forklift from Gagetown directly to a lumber company, not to an equipment company or to a junk dealer; in turn, this lumber company now has it advertised for sale. Does that fit into your general policy of selling wholesale?

Mr. RICHARD: I would like to know more about that particular case.

Mr. REGAN: Perhaps we can discuss it later.

Mr. Richard, I think there has been a tendency to put out lots that are too small to be economically handled either from the point of view of the junk dealer or from the point of view of the amount of paper work involved in the Halifax area, and I would be gratified if you would look into that matter.

Mr. RICHARD: You have a point. That is something we are watching constantly. Sometimes it does get out of hand. But, we try to group together as much as we can. As I said, it does get out of hand sometimes.

Mr. REGAN: I will reserve my further questions for Mr. Armstrong.

The CHAIRMAN: Mr. Cameron is next, followed by Mr. Mandziuk, and then I would hope we could adjourn for lunch.

Mr. CAMERON (*High Park*): You stated you were not in the retail business.

Mr. RICHARD: That is right.

Mr. CAMERON (*High Park*): Therefore, you do not employ any salesmen?

Mr. RICHARD: What do you mean by that?

Mr. CAMERON (*High Park*): I have in mind in respect of some of the articles not only in the categories we are dealing with but others that you may have an idea that so and so would be a good customer for these articles. In cases like this do you not have salesmen go out, make the necessary approaches, and advise them that you have a lot of good used furniture, for instance, and would like them to see it and buy it.

Mr. RICHARD: Yes, we do.

Mr. CAMERON (*High Park*): Then, you have salesmen in that respect?

Mr. RICHARD: Yes.

Mr. CAMERON (*High Park*): You never gave us a complete statement of policy. There must be a lot of other goods other than military with which you deal?

Mr. RICHARD: Oh, yes.

Mr. CAMERON (*High Park*): Is there a difference between your policy in regard to military equipment and these other items?

Mr. RICHARD: No; it is the same.

Mr. CAMERON (*High Park*): You have been using the word "scrap" quite a bit.

Mr. RICHARD: Yes.

Mr. CAMERON (*High Park*): Does that not imply that if it is sold as scrap it is going to be reduced to some other form of metal which will be taken in by a steel factory or some such industry to be processed into some other metal?

Mr. RICHARD: What we mean by that is that the best recovery we can get is the value of the metal content or the basic materials contained in the articles, which usually is referred to as the scrap value or scrap price. In the majority of cases it does go into the melting pots and will find its way to the mills.

Mr. CAMERON (*High Park*): Have you any policy of restriction in respect of where it must go?

Mr. RICHARD: No.

Mr. CAMERON (*High Park*): So that someone could buy some of this electronic equipment, for example, and use it for any other commercial purpose or, in fact, any purpose for which it is usable?

Mr. RICHARD: That is the trouble; it has no commercial application.

Mr. CAMERON (*High Park*): I beg your pardon.

Mr. RICHARD: It has no commercial application in most cases.

Mr. CAMERON (*High Park*): It may not but I want to find out what your policy is.

Mr. RICHARD: When it has we are able to get a price for it.

Mr. CAMERON (*High Park*): Then you do not restrict it to scrap. They can use it for any purpose they want?

Mr. RICHARD: Yes.

Mr. CAMERON (*High Park*): I imagine from what you said that plumbing fixtures were sold as scrap?

Mr. RICHARD: No.

Mr. CAMERON (*High Park*): They were sold to be used over again?

Mr. RICHARD: But, we might get only a scrap price for it.

Mr. CAMERON (*High Park*): If it is usable and can be used again—and I am thinking of plumbing equipment—why should you accept a scrap price for it?

Mr. RICHARD: Because we cannot get anything else.

Mr. CAMERON (*High Park*): That is my point. What efforts are you making to try and get a better price for it?

Mr. RICHARD: Plumbing and heating equipment are a commodity on which we get a fair return.

Mr. CAMERON (*High Park*): What different approach have you in respect of plumbing and heating equipment as opposed to the other types of equipment you are selling?

Mr. RICHARD: I do not know what you mean.

Mr. CAMERON (*High Park*): Do you make a greater effort? Do you say that this is something that you are not going to just throw on the scrap pile. If a junk dealer comes along do you ask him to take a look at all this beautiful equipment, and if he is going to go out and sell it do you ask him to give you a better price for it?

Mr. RICHARD: We do it beforehand.

Mr. CAMERON (*High Park*): You do not endeavour to seek out a better market for it?

Mr. RICHARD: Oh, yes. We have all the dealers in the country on our list and we know when they will be interested enough in a certain article to give us a fair price or, on the other hand, we know when it is going to fetch only a recovery price.

Mr. CAMERON (*High Park*): Have you any policy in respect of equipment which is supposed to have a military value and which could be used by some other country for military purposes?

The CHAIRMAN: Order, gentlemen.

Mr. RICHARD: No, we do not offer to foreign governments. They may solicit.

Mr. CAMERON (*High Park*): I am not referring to that specifically. But, in respect of the junk dealer, or whoever the buyer is that comes along, you have no control over him after he has bought the item?

Mr. RICHARD: No.

Mr. CAMERON (*High Park*): So, he could sell it to any country he wanted to, subject to whatever the laws of Canada might be in that regard?

Mr. RICHARD: Right.

Mr. CAMERON (*High Park*): But you would have no control over it; it has passed out of your control.

Mr. RICHARD: That is right.

Mr. TARDIF: I have a supplementary question. You said that in respect of some of these materials that are not actually obsolete you get a fair price. I note that your return on plumbing equipment was 18 per cent of the original price. Do you call that a fair price?

Mr. RICHARD: Yes.

Mr. TARDIF: What do you call an unfair price?

Mr. RICHARD: Scrap price.

Mr. TARDIF: Which is below 18 per cent?

Mr. RICHARD: 18 per cent is a good price for plumbing and heating equipment that has been around 15 years or so. You see, it may be rusted.

Mr. CAMERON (*High Park*): Over the whole picture of the total \$28,956,581 and the total return of the year in question of \$715,000, the percentage of return is between 2 per cent and 3 per cent, is it not?

Mr. RICHARD: Yes.

Mr. CAMERON (*High Park*): This may be quite understandable but it is certainly a tremendous difference.

Mr. RICHARD: Well, you must keep in mind that a great deal of this has to be sold for the value of the components alone; in other words, for the value of the basic material. An airplane that costs \$250,000 to \$500,000 has only about 10 to 20 tons of metal in it, and that will never bring any more than \$500.

Mr. CAMERON (*High Park*): Could you give the committee any idea how much it cost your agency during the year to realize this \$715,000 which you received?

Mr. RICHARD: Do you mean how much it cost to sell it?

Mr. CAMERON (*High Park*): Yes.

Mr. RICHARD: Perhaps I can give you another set of figures and say that we have disposed of in the past year materials which have brought \$11,200,000, which has cost us \$625,000 in administration expenses.

Mr. CAMERON (*High Park*): And the same proportion should apply in this particular breakdown?

Mr. RICHARD: It should.

The CHAIRMAN: Mr. Crouse.

Mr. CROUSE: I have a supplementary question. A moment ago Mr. Richard said, in answer to a question that he knew when to contact the different dealers in respect of disposal of plumbing equipment. Would you tell us how you know when these people are interested in buying plumbing equipment? How do you know when the opportune time is? You said you knew when to contact them.

Mr. RICHARD: What I did say is that we had lists of purchasers who are interested in materials of the kind to be offered and we invite offers from them. We know their main interests, what type of goods they are interested in, and we have a fairly good idea what they are going to offer us for a certain type of goods.

Mr. MANDZIUK: Mr. Richard how many regional offices have you throughout Canada?

Mr. RICHARD: We have an office in Halifax; we have an office in Ottawa here which handles the Ottawa and Montreal region, and we have one in Toronto, Calgary and Vancouver.

Mr. MANDZIUK: Do these regional offices operate independently of your office here?

Mr. RICHARD: Independently?

Mr. MANDZIUK: Yes.

Mr. RICHARD: Oh, no. All reports of surpluses are funneled to Ottawa and we distribute them to our field offices, which call for offers, and then they are referred to us here.

Mr. MANDZIUK: Then the final decision in respect of acceptance of an offer or otherwise rests with your office?

Mr. RICHARD: Right.

Mr. MANDZIUK: How many people are employed by the corporation? I do not imagine you have that immediately but could you give us a rough estimate?

Mr. RICHARD: One hundred.

Mr. MANDZIUK: Are you overstaffed or understaffed?

Mr. RICHARD: Oh, we are not overstaffed by any means.

Mr. MANDZIUK: What exactly is required in the way of paper work or the various steps which your regional office would take, whether it was a small or large item? For example, are there various steps which entail considerable work and expense which hardly would warrant you advertising small quantities, to which reference has been made? What are the various steps you take until the item actually is sold?

Mr. RICHARD: Well, all of them are listed on these offer forms which we send to prospective buyers, when they are asked to bid. And, the same procedure applies to all sizes of lots. We ask for bids. We attempt to dispose of reports of surpluses as they come in.

Mr. MANDZIUK: Are these forms or lists sent to the whole dominion?

Mr. RICHARD: Oh, no. They are sent to people in the district plus others who are on the local lists. As I explained a moment ago, anyone in Halifax

who wants to bid on Calgary surpluses will get invitations for offers from Calgary.

Mr. MANDZIUK: In other words, all those on the list get notice of what surplus you have for sale?

Mr. RICHARD: Yes.

Mr. MANDZIUK: I had other questions but they have already been asked and answered.

The CHAIRMAN: There is one other question I have. I was looking up the legislation which appears in chapter 260 of the revised statutes, and I see that section 5 places the original responsibility in the hands of the minister; that is, the minister may do all the things which you actually do. Then, I noted in section 8, unlike most crown corporations which have specific authority, that the minister may authorize the corporation to exercise or perform any or all of the functions or duties of the minister which are specifically set out in section 5, and then, subject to specific or general instructions from the minister, the corporation may do such and such. In this particular case do you act as a crown corporation, and has the minister vested in Crown Assets Disposal Corporation all of the functions which, by section 5, are originally given to the minister? In other words, do you act as his agent in a complete way or is the minister free to exercise control from time to time?

Mr. RICHARD: I would say that the minister is quite free to exercise all the powers that have been given to him. On the other hand, he has also delegated these powers as contemplated under section 8 of the act and we hold a written delegation of the powers of the minister.

The CHAIRMAN: Thank you.

Gentlemen, you have been very good in staying here this length of time. I hope Mr. Richard and his officials will not need to return. However, we will carry on this afternoon and we have sent out in the notices a number of paragraphs from the 1962 and 1963 Auditor General's report, with which the Department of National Defence is concerned. We do not get too much of a chance to have Mr. Armstrong with us because he is concerned with the defence committee. He will be available this afternoon and evening. I hope we can come back at the times named and finish the matters with which Mr. Armstrong is concerned.

I wish to thank Mr. Richard and his officials for giving us information which the committee requested.

We will meet at 3:30 or thereabouts this afternoon.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

TUESDAY, JULY 14, 1964

WITNESSES:

Mr. E. B. Armstrong, Deputy Minister, Department of National Defence;
Mr. E. A. Driedger, Deputy Minister, Department of Justice; Mr.
A. M. Henderson, Auditor General; and Mr. B. A. Millar, of the
Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Gray,	Regan,
Cameron (<i>High Park</i>),	Hales,	Ricard,
Cardiff,	Harkness,	Rinfret,
Choquette,	¹ Leblanc,	Rock,
Côté (<i>Chicoutimi</i>),	² Legault,	Rondeau,
Crouse,	Lessard (<i>Saint-Henri</i>),	Ryan,
Drouin,	Loiselle,	Smith,
Dubé,	Mandziuk,	Southam,
Fane,	McLean (<i>Charlotte</i>),	Stefanson,
Fisher,	McMillan,	Stewart,
Forbes,	Muir (<i>Lisgar</i>),	Tucker,
Francis,	Nowlan,	Valade,
Frenette,	O'Keefe,	Wahn,
Gendron,	Pigeon,	Whelan,
Grafftey,	Pilon,	Winch—50.
Grégoire,	Prittie,	

M. Slack,
Clerk of the Committee.

¹ Replaced Mr. McNulty on Monday, July 13.

² Replaced Mr. Basford on Monday, July 13.

ORDER OF REFERENCE

HOUSE OF COMMONS,
MONDAY, July 13, 1964.

Ordered,—That the names of Messrs. Legault and Leblanc be substituted for those of Messrs. Basford and McNulty respectively on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, July 14, 1964.

(19)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Fisher, Francis, Frenette, Gendron, Grafftey, Hales, Lessard (*Saint-Henri*), Loiselle, Mandziuk, O'Keefe, Nowlan, Pilon, Prittie, Rinfret, Ryan, Southam, Stefanson, Tardif, Tucker, Wahn, Winch (26).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. E. A. Driedger, Deputy Minister, Department of Justice; and Messrs. Millar, Laroche and Hogan of the Auditor General's Office.

The report of the Subcommittee on Agenda and Procedure was presented by the Chairman, dealing, *inter alia*, with the recommendation that a subcommittee be appointed to further inquire into the purchases of the Department of National Defence and declared surplus to Crown Assets Disposal Corporation. (*See Evidence*).

On motion of Mr. Winch, seconded by Mr. Cardiff,

Resolved,—That the report of the Subcommittee on Agenda and Procedure, presented this day, be now concurred in.

The Chairman advised that the Deputy Minister of Justice would appear later this morning.

Mr. Baldwin announced the cancellation of the scheduled appearance on July 30 of the Deputy Minister of National Revenue, Mr. Sim.

The Chairman tabled an up-dated document prepared by the staff of the Treasury Board, dated June 1964, entitled, "Provision in Estimates for Grants, Subsidies and Special Payments", copies of which were distributed to the members.

The Committee resumed its consideration of the carryover items of the 1962 Auditor General's Report and also his 1963 Report.

The Chairman, after introducing Mr. Armstrong, called Mr. Henderson.

On paragraph 64 of his 1963 Report, Mr. Henderson reviewed lease termination payments. Mr. Armstrong commented on his department's follow-up procedure on previous recommendations of this committee, supplied additional information and was questioned thereon.

On paragraph 78 of the 1962 Report, *Renovation of remote transmitter station*, Halifax, after discussion, this paragraph was referred to the Steering subcommittee for further consideration.

Mr. Armstrong retired temporarily and Mr. Driedger was called.

The Chairman introduced Mr. Driedger and invited him to state his views on the Auditor General's status on the matter of seeking legal advice.

Mr. Driedger made a statement dealing with the status of the Auditor General seeking legal advice, explained the position of the Justice Department in this connection, and was examined thereon together with Mr. Henderson.

The examination of Mr. Driedger being concluded, the Chairman thanked him and he was permitted to retire.

Mr. Armstrong having been recalled, the Auditor General and Mr. Armstrong commented on paragraph 79 of the 1962 Report and were examined thereon.

The questioning of Messrs. Armstrong and Henderson still continuing, at 11.55 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(20)

The Committee resumed at 3.40 p.m. The Vice-Chairman, Mr. Paul Tardif presided.

Members present: Messrs. Berger, Cameron (*High Park*), Cardiff, Choquette, Crouse, Fane, Francis, Frenette, Gendron, Hales, Leblanc, Legault, O'Keefe, Pilon, Regan, Rinfret, Ryan, Southam, Tardif, Tucker, Wahn, Winch (22).

In attendance: Same as at morning sitting with the exception of Mr. Driedger.

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

Mr. Armstrong supplied two answers requested at the morning sitting relating to Paragraph 78 of the 1962 Report.

The Vice-Chairman welcomed two new members of the Committee, Messrs. Legault and Leblanc.

Messrs. Henderson and Armstrong commented on paragraph 81, *Financial Assistance to the Town of Oromocto*, and were examined thereon.

On paragraph 82 of the 1962 Report, and paragraph 66 of the 1963 Report, *Unauthorized use of Crown-owned vehicles*, Messrs. Henderson and Armstrong commented thereon, and were further examined.

On paragraph 115 of the 1962 Report, *Non-productive payments*, Messrs. Henderson and Armstrong commented on payments relating to the Department of National Defence and were examined thereon.

The examination of the witnesses still continuing, at 5.55 p.m., the Committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(21)

The Committee resumed at 8.20 p.m. The Vice-Chairman, Mr. Paul Tardif, presided.

Members present: Messrs. Berger, Cardiff, Choquette, Crouse, Fane, Francis, Frenette, Gendron, Hales, Legault, Rondeau, Ryan, Southam, Tardif, Wahn, Winch (16).

In attendance: Same as at afternoon sitting.

Messrs. Henderson and Armstrong commented on paragraphs 64, 65, 67, 68, 69 and 70 of the 1963 Report and were examined thereon, assisted by Mr. Millar.

On paragraph 64, Mr. Armstrong tabled a copy of regulations related to movement of mobile trailer homes. The Committee agreed that this document be printed as an Appendix to the Minutes and Proceeding and Evidence of this day. (*See Appendix*).

Mr. Henderson commented on the non-productive payment list, in his 1963 Report; Messrs. Armstrong and Henderson were further examined thereon.

The examination of Mr. Armstrong being concluded, the Vice-Chairman thanked the witness on behalf of the Committee.

At 10.35 p.m., the Committee adjourned until 9.30 a.m. on Thursday, July 16, 1964.

Attest.

M. Slack,
Clerk of the Committee.

Note—The evidence, adduced in French and translated into English, printed in this issue, was recorded by an electronic recording apparatus, pursuant to a recommendation contained in the Seventh Report of the Special Committee on Procedure and Organization, presented and concurred in, on May 20, 1964.

EVIDENCE

TUESDAY, July 14, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. Mr. Henderson will be here in a minute or so. In the meantime, there are one or two matters which I would like to bring to your attention.

Your subcommittee on agenda and procedure had a meeting yesterday. This is the report we are presenting to you for your consideration. First, an interim report will be presented to the main committee as soon as available in English and French, dealing with matters considered up to and including June 30, 1964.

Second, an additional interim report covering the Canadian Broadcasting Corporation will be presented to the main committee for consideration before the end of July. Since we had held six meetings in two days which were exclusively devoted to the C.B.C., your subcommittee felt this is a particular matter which should be placed in a watertight compartment and dealt with by the committee by itself. Therefore, there will be a separate report and we hope it will be available some time before the end of the month.

We also anticipate an additional interim report covering all matters considered for the period June 30 to July 31 will be presented to the main committee for consideration.

If we are successful in this, we will then have considered and reported on all the matters with which we have dealt up until the end of the month. In the time remaining to us in the fall, we would be free to complete a fully study of the Auditor General's report for 1962 and 1963, and, for the first time in several years, would be right up to date with our work.

The fourth matter has to do with the consideration we gave to the matter of the Crown Assets Disposal Corporation and the memorandum filed by Mr. Henderson which was considered by the committee, and following which we had discussion with Mr. Armstrong and the president of Crown Assets Disposal Corporation, Mr. Richard. Your subcommittee has a resolution to bring before you for your consideration with regard to the future disposition of this particular matter. The resolution is as follows:

That a subcommittee of five members be appointed to further inquire into the matter of purchases made by the Department of National Defence and declared surplus to Crown Assets Disposal Corporation as disclosed in the memorandum of the Auditor General tabled in the committee on July 9, 1964, and to report its findings and recommendations to the main committee.

As you know, we have received authority from the house to appoint subcommittees which subcommittees will be entitled to make inquiries and call for persons and papers to the same extent as the main committee. Our proposal is that you establish a subcommittee to complete a further inquiry into this particular matter.

These are the recommendations of the subcommittee on agenda and procedure, and I would like to hear discussion on these matters, and if you approve of them I would appreciate having a motion to that effect.

Mr. WINCH: I would like to move that the committee accept the recommendations of the steering committee.

Mr. CARDIFF: I second the motion. "

The CHAIRMAN: Is there any discussion?

Mr. RYAN: What is the date of the report?

The CHAIRMAN: July 9, 1964, is the date which appears on the memorandum. I am not sure whether or not it is the date on which it was tabled in the committee.

It has been moved and seconded that the report of the subcommittee be accepted. All in favour?

Motion agreed to.

The CHAIRMAN: There is one more matter before I ask Mr. Armstrong and Mr. Henderson to discuss with you the current matters. Mr. Driedger, the deputy minister of justice, very kindly has consented to appear here this morning to deal with a matter I brought up last week having to do with the status of the Auditor General in so far as seeking legal advice is concerned. Mr. Driedger said it would not be possible for him to appear at the beginning of the meeting. However, as I thought our meeting would last for some time, he said he would be here some time in the morning at which time he will give us the benefit of his views.

The meeting scheduled for July 30 at which Mr. Sim, the deputy minister of national revenue, was to be present, has had to be cancelled. Mr. Sim already had made commitments to be absent from the city at that time. Consequently, he said it would be possible for one of the assistant deputies to be here, but he was quite concerned with the issues involved, and felt it was necessary he be here. He appreciated the importance of this committee's deliberations, and would like to be present. Accordingly, we will not be having a meeting on July 30. Probably then, or before that time, we will have completed our in camera meetings of the matters which have been before us.

Finally, I am reminded that we have before us now the summary of grants, subsidies and special payments which were disclosed at a previous meeting by the treasury board officials. This carries a summary of all these payments up to the fiscal year 1964-65, which the committee requested. These were found useful last year and, therefore, it was agreed that these be tabled again. This document is available now and will be distributed.

Gentlemen, today we have with us again Mr. Armstrong, the deputy minister of national defence. There are a number of items which are referred to in the notices which have been sent out to you. Mr. Armstrong and Mr. Henderson will discuss those items and will be available for questioning by the members. I will ask Mr. Henderson to initiate the discussion. Would you turn, first of all, to the 1962 report starting at paragraph 74 where there are a number of items.

Mr. A. M. HENDERSON (*Auditor General*): If I may, Mr. Chairman, I would suggest the members might care to turn to the 1963 report, paragraph 64, which covers national defence administrative regulations and practices.

64. *National Defence administrative regulations and practices.* During the year under review, as in previous years, instances were observed where the application of administrative regulations relating to the armed forces had resulted in needless or uneconomical expenditure, or were otherwise unsatisfactory from the audit point of view. In accordance with past practice, all such instances have continued to be drawn to the attention of the department, and the services concerned have taken appropriate action to obtain amendment of the regulations or otherwise correct the situation, except in the following cases where action has not yet been taken or is still in progress:

1. *Rehabilitation Leave For Former Members of British and Other Commonwealth Forces.*—The regulations permit the inclusion of

service in British or other commonwealth forces for the purpose of calculating entitlement to rehabilitation leave on discharge, provided the entire service is uninterrupted. In this connection, two instances were noted where officers who had transferred from the British to the Canadian forces were released with slightly more than ten years service in the latter and, under the regulations, each became entitled to rehabilitation leave (based on 37 years combined service) of 7½ months valued at approximately \$5,000. On questioning this, we were informed that the services have proposed that in any such case in the future the period of rehabilitation leave, on which entitlement is based, should be reduced by the period of termination leave granted on completion of the previous service.

2. **Release From Service Through Purchase.**—National defence regulations prescribe the conditions under which “other ranks” may obtain their release from service by purchase, the purchase money so received being regarded as partly compensating the Crown for its costs in enrolling and training personnel, and then releasing them within short periods of time. In the audit it has been observed that while the air force and the navy apply the purchase regulation and, in fact, recovered over \$100,000 in the last three years, the army suspended its application in 1950, and has since allowed personnel to be released “on request” without payment of purchase money. Inasmuch as the reasons given for requesting release are in many instances the same in all three services (for example, “to return to school” and “to accept civilian employment”) it is not clear why the army policy varies from that of the other two services. We were informed that the army’s practice is currently under review.
3. **Removal Expenses—Mobile Homes.**—The regulations relating to the shipment of furniture and effects of servicemen were drafted some years ago when the usual method of shipping was by rail or road van. Since then, mobile homes have come into common use and the movement of furniture and effects in these homes is being regulated by supplementary service orders which provide that when a serviceman owning such a home is transferred from one unit to another he may have his home and contents hauled by a commercial towing firm at a cost not exceeding that which would be incurred were the contents moved in the normal manner by rail or road van, whichever may be the more economical. A test-examination of accounts during the year disclosed a number of instances where, through the submission of fraudulent receipts and the concealing of inadmissible costs, servicemen had been substantially overpaid, principally because of ineffective procedures used in verifying the net weight of the contents, haulage rates, etc. Although, as a result of the disclosures, new instructions are being issued to deal with the situation, it would seem appropriate that the regulations also be amended to include directions specifically dealing with the movement of mobile homes and their contents.
4. **Rehabilitation Leave—Misconduct And Inefficiency Releases.**—The regulations provide for rehabilitation leave to personnel on release on the basis of thirty days for each completed five years of continuous service and seven days for each completed year of continuous service under five years. These benefits, however, may not be granted if the reason for the release is misconduct, inefficiency or voluntary. In the audit it was noted that members released from the services, under the regulations governing compulsory retirement

to promote economy and efficiency, for reasons such as "not advantageously employable in present rank", and "considered unsuitable for reasons other than misconduct, etc.", who are subsequently determined by the service pension board for superannuation purposes as being released for "misconduct" or "inefficiency", have been granted normal rehabilitation leave allowances. In the opinion of the Audit Office, the reason for release as determined by the service pension board on which pension benefits are based should also be used to determine entitlement or otherwise to rehabilitation leave.

5. Lease Termination Payments.—Comments regarding regulations governing the reimbursement of servicemen for lease termination payments were made in the 1960 report (paragraph 56) where it was noted that such outlays were being made up to a maximum of three months' rent. After considering the matter at some length and having in mind that approximately \$500,000 was being spent annually by the department, as well as noting the use by the Royal Canadian Mounted Police of a lease form providing for only a 30-day termination clause, the standing committee on public accounts recommended in its fifth report 1961 (paragraph 52) that the maximum period be reduced in future to the equivalent of one month's rent.

After considering the recommendations of the public accounts committee an amendment was made to the regulations during the year which, while providing for discretionary powers to be exercised by administrative officers in dealing with individual cases, did not, however, reduce the maximum period from three months to one. The general practice has continued to be to make reimbursement on the basis of the permissible maximum of three months' rent, and the outlay for lease termination payments during the fiscal year 1962-63 amounted to \$670,000.

6. Medical Examination Of Militia Recruits For The National Survival Training Program.—During the period from November 1961 to May 1962 the army undertook a special militia training program which involved recruiting some 90,000 men in four separate courses of six weeks duration each. Medical examinations of recruits were required on enrolment and also on completion of each course. To carry out the exceptionally large number of examinations quickly, civilian medical practitioners were employed either (a) at a rate of \$18 per half day or (b) on a basis of \$5 per enrolment examination and \$2 per releasing examination, in accordance with existing regulations.

It was noted that in some instances, where the second of these methods of remuneration was used, the doctors had been paid fees averaging \$170 a day, in total, including amount as high as \$300 to \$400 for specific days. After investigating these apparently excessive amounts, the department concluded that present regulations regarding medical fees, while satisfactory under normal conditions, are not satisfactory under circumstances similar to those encountered under the special militia training program, and decided that special financial arrangements should be made at the outset to deal with the medical examination of large numbers of personnel within a short period.

7. Excessive Payment Of Foreign Service Allowances.—Regulations applicable to the armed forces provide that an officer going on a

training course of less than six months duration is not entitled to move his family at government expense nor is he entitled to foreign service married allowance. In the audit a case came to attention where an officer was posted on a five months' training course to Norfolk, Virginia, and, for the reason that immediately following the course he was expected to be posted to Washington, D.C., he was allowed to move his family to the latter city at the commencement of the course. To regularize payment of moving costs and foreign service allowances, the original order posting him to Norfolk was amended retroactively to provide for a posting to Washington for three years and transfer from there to Norfolk, on temporary duty, for the duration of the training course. This entitled the officer to foreign service married allowances, applicable to Washington, during the five months' period of the training course. The financial result of this change was that the cost to the Crown was increased by some \$2,400 over the cost which would have been incurred in the normal way had the dependents remained in Canada until the officer had completed the course. We were informed by the department that it was felt to be in the interest of the service that the officer, during the period of the course, was able to be with his family on weekends.

8. Clothing Credit Allowance.—Under the regulations servicemen are entitled to clothing allowance of \$7 monthly to enable them to obtain the necessary military clothing required to "keep up" their kit while in the service. The benefits cease on date of release. The department was asked to comment on the fact that servicemen have entitlement to these allowances during periods of rehabilitation leave, when presumably they are not on duty and therefore not required to replace worn out or lost kit. While the amounts of individual allowances credited to the servicemen during their rehabilitation leave period are normally not large, the aggregate is substantial (about \$60,000 annually) because of the number of personnel released each year. It is also noted that the Royal Canadian Mounted Police regulations do not extend entitlement to such clothing allowances after the commencement of rehabilitation leave. We were informed that the matter is currently under review by the department.

The CHAIRMAN: Very good.

Mr. HENDERSON: I refer to paragraph 64 in the 1963 report appearing at page 35. The members will automatically deal then with item 5 "Lease Termination Payments", which appears on the page over, page 36, and which in effect was the subject of my comment in the 1962 report to which you have just referred.

In the 1962 report I commented separately in paragraph 74 in respect of lease termination payments and brought the matter up to date, as I have just mentioned, in paragraph 64 at pages 35 and 36.

The eight cases cited in paragraph 64 of the 1963 report indicate those where, in my opinion, some action is overdue and about which you may wish to question Mr. Armstrong this morning.

One of these cases with which you are especially familiar is the one I just mentioned, being No. 5 on page 36, dealing with lease termination payments. That is the one to which I referred earlier as being in paragraph 74 of the 1962 report. You will recollect we discussed this in the committee on June 2 of this year. The evidence in that regard appears at page 47 of the Minutes of Proceedings and Evidence. Mr. Winch, Mr. Southam and I believe Mr. Hales at that time wished to know why the Department of National Defence had not followed up the committee's recommendations last December, that something

be done to eliminate or otherwise improve this practice. As Mr. Winch pointed out at that time, the public accounts committee has made this recommendation since 1960.

The CHAIRMAN: Would you like to make a comment in that regard, Mr. Armstrong?

Mr. E. B. ARMSTRONG (*Deputy Minister, Department of National Defence*): Mr. Chairman, the department, of course, has followed up the recommendations of the public accounts committee, which were to the effect that the present regulation which permits up to three months payments of rent on termination be reduced to one month. Following that recommendation we did examine the detailed accounts for a period and determined from that examination that the average rent termination payment at that time was \$110, which represents roughly, on the average, one month's rent.

We followed that up in the following year, 1962-63, at which time the average payment was \$115. There was a difference of \$5 between the two periods.

We also examined this problem in respect of the Royal Canadian Mounted Police and their practices. As the Auditor General has pointed out to you, they endeavour to get a termination clause of one month in their leases. There are some differences in terms of the extent of the problem itself between the Department of National Defence and the Royal Canadian Mounted Police.

The mounted police have approximately 180 commissioned officers and 7 000 men. One third of their officers are accommodated in publicly owned accommodations. Another one third are housed in quarters that are rented by the Royal Canadian Mounted Police, and in that case the lease is between the crown and the lessor. Those leases do in fact include a clause which would permit termination with one month's notice. The remaining one third do find their own housing accommodation.

Of the 7,000 men there are approximately 4,000 who are married and do, by and large, find their own accommodations. There are about ten per cent of them I believe living in government owned quarters.

The mounted police have about 700 detachments across the country, and the number of people in each of these detachments is relatively small. They do find it possible, because of the size of the problem, by and large, to ensure that when a man is being moved to arrange that his lease will expire about the time he moves. They do insist or direct that the men obtain, if possible, a termination clause of one month, and if he does not obtain that clause he must report the fact to headquarters. If a case does arise where in respect of which they feel that there would be justification for paying more than a month they go to treasury board and seek authority for it.

In respect of the Department of National Defence, the problem, of course, by reason of size and by reason of the fact that we do have more postings, that are somewhat unpredictable when one has to move very quickly for various types of commitments, is much more difficult to arrange or keep in controllable order. We have just over 81,000 married people in Canadian forces and we have approximately 30,000 married quarters. We have somewhat in excess of 51,000 people who find their own accommodation and are living out. In total we have about 20,000 moves per year, which is a very large number of moves.

The problem comes down really, in our considerations, to the fact that if we insist, or if we attempt to insist, on one month termination we must depend on the man's ability, of course, to get this clause inserted in his lease. This certainly would be possible in some cases.

Our directions do of course direct the man to do his best to get this kind of an arrangement, but if he is not successful in getting that arrangement,—and

he would not be in many cases—then he is liable to pay more than one month. He may be liable to pay the full amount of the unexpired lease. Normally, he would be able to get out of it for something less than that.

In the Canadian forces, in terms of the conditions of service for married men, the problem of moves is a particularly critical one for the families. It means that they have to upset their homes and move from one place to another. While we reimburse the cost of these moves, and so on, I think we all know from our own experience of moves that it is not only somewhat inconvenient but it usually costs money, in addition to the reimbursement that we would provide. We have considered, under these circumstances, that we should not impose the one month limitation which would, under present circumstances at any rate, involve an additional liability in many cases on the individuals concerned. As I say, on the average the payments that are made do come out to about what would roughly be a month's rent, or \$115 currently. It is for these reasons that we have not done this. We have introduced in the regulations some changes; we have put out administrative directions to give guidance to commanding officers to assist their men in making these arrangements. We have included in the regulations something we did not have before, an executive authority that under certain circumstances the three months need not be paid even though the man may have incurred the cost. One of the cases which the Auditor General mentioned is a case which we should probably not accept where a man sublets his property to another serviceman coming in and conceded three months' rent to him and we covered the three months' rent from the crown. We think that is unwise and we have introduced a provision in the regulations which would not permit that. With all of these moves and the number of occasions when this happens I do realize that there are going to be individual cases that do not look very satisfactory. Some cases occur when a man, entering into a lease, for instance, is then advised a few days later that he is being posted elsewhere. This does happen occasionally, and obviously it does not look very good, but I am afraid that, to some degree, some of these are unavoidable.

Mr. TARDIF: Mr. Chairman, I do not know whether I am in order in saying this but there are two things I would like to say if possible. I do not know whether members of the committee agree with me. One of them is that I think the witness should speak a little louder. I am not addressing in particular to this witness, I mean any witness should speak loudly. It makes it very difficult to follow if he does not do so.

Another thing which I would like to say would save time and would probably have permitted this committee to finish the 1963 report in 1963, and that is that the witness should answer questions in a concentrated form. The present witness gave us all the rules that apply to all exceptions that prove the rule. The answer to this question was that the Department of National Defence does not agree with the recommendation made by the Auditor General that the advice of termination of a lease should be limited to one month. This could have been said in fewer minutes than were used. I am a little afraid that if we continue like this we will still be working on the 1963 report by the end of 1964, and surely that is not what you are looking for, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Tardif.

Mr. HALES: In view of Mr. Armstrong's statement that they found that the average worked out to about a month, why did your department not follow our recommendation as laid down by the committee last year? We suggested one month's termination of lease. You made a study and you found out that the average was about a month, so why did you not put this into your regulations?

Mr. ARMSTRONG: The fact that the average worked out to a month does not mean of course that a considerable number of individuals would have

a claim for more than one month. Those are the cases that we are able to cover where we have a three months' clause. If we did not, these men would have to pay that out of their own pockets.

Mr. HALES: Why not put this in reverse and have the exception handled by the authorities?

Mr. ARMSTRONG: I am not too sure what you mean by the reverse.

Mr. HALES: Put into your regulations a one month release clause, and then any cases which have to be over and above that month must come before a board or before some other authority.

Mr. ARMSTRONG: That of course is possible. However, it would be administratively difficult to handle if every one of these cases was brought down to a central headquarters for a decision.

Mr. HALES: Do you not agree that as long as this is in the regulations there are opportunities to take advantage of it? If it were the other way around, it might be better.

Mr. ARMSTRONG: To some degree I think that what you say is true. Whether a man has to pay more on termination of a lease depends on his lease. If he is to be protected we must ask ourselves whether he is in a position to get that clause in his lease. That is not a standard clause, as you know, and it does mean finding a landlord who will accept a one month termination clause. We do find that there are areas where our men are getting one month now, where the rental situation is easing.

Mr. HALES: I have one more question. In the 1962 report, on page 29, under the same heading, "Reimbursement to servicemen for lease termination payments" there is a paragraph which brings a specific case to our attention. It says that the department was questioned regarding the propriety of the payment, and the matter is still under consideration. I would like to know how that was handled, and what the final outcome was.

Mr. ARMSTRONG: This is the one that I referred to. In that case the man was reimbursed \$325.

Mr. WINCH: Mr. Chairman, Mr. Hales has, very nicely, asked my first questions, so I will not have to repeat it.

My second question is as follows. I would like to ask whether my thinking is correct. Let us say that in about 99 cases out of 100 if you post a man away from a station you are also posting someone back into that station and that person will look for a place to live. Therefore, in all probability there is a place which has just been vacated. Under those circumstances, if my thinking is correct, why should a landlord collect two months' rent twice, which is actually what is happening?

Mr. ARMSTRONG: When you ask whether your thinking is correct, it may be correct in many cases when the landlord leases that particular accommodation to another serviceman. This unquestionably happens, there is no doubt about it. Why he should collect two months' rent depends on the circumstances. He may not collect two months' rent, or he may collect more than that. What we want to do is to protect the serviceman in those cases where he has to pay up to three months' rent. We are not anxious to pay the three months. We want to pay the least we can, but we do not feel we should have a regulation that will impose on the serviceman a payment of this kind that he really cannot avoid under certain circumstances.

Mr. RYAN: Mr. Chairman, Mr. Hales asked a question I wanted to ask. I would like to say I still feel very strongly that it should be one month's notice. Where the landlord insists that he must have longer notice, the lease should

then be produced before a commanding officer or some appointed officer for stamped approval. In all other cases no more than one month's rent should be paid on a lease.

The CHAIRMAN: That is a statement of your view on it, is it not?

Mr. RYAN: Yes.

Mr. SOUTHAM: Mr. Chairman, as has been pointed out, Mr. Hales struck the keynote of this problem by suggesting that this policy of three months' lease should be changed to one month. This would put the onus of the leasing on the individual serviceman. If this were done it would encourage the individual serviceman to do a little more shopping around to find accommodation. In my experience in the city of Ottawa in the last five years there is a tendency on the part of the landlord to consider shorter term leases. I think that this whole situation of accommodation is becoming easier, as has been pointed out here. The R.C.M.P. have this principle. It could certainly also be applied to servicemen. I am inclined to go along with the Auditor General's suggestion that it could be tightened up.

Mr. CAMERON (*High Park*): I was going to ask Mr. Armstrong whether personnel negotiate their own leases.

Mr. ARMSTRONG: Yes, they negotiate their own leases.

Mr. CAMERON (*High Park*): Without any assistance or any advice from the department?

Mr. ARMSTRONG: Of course they can consult their commanding officers in this respect, but we do not attempt to provide any negotiating service for leases.

Mr. CAMERON (*High Park*): You have never gone to the trouble of preparing a stereotype clause to suggest to the serviceman that when he negotiates a lease he should ask the prospective landlord if he agrees to it because in effect military personnel are subject to the call of duty and they have to move and therefore after one month's notice a lease can be terminated?

Mr. ARMSTRONG: We have issued directions—it is not precisely a standard type clause—with the type of wording that the man should attempt to seek in respect of termination of his lease. This includes an effort to get his lease on one month's notice, if possible or as short a termination clause as possible.

Mr. CAMERON (*High Park*): Do you think that might be an idea worth while considering?

Mr. ARMSTRONG: Yes; in a sense we have done this. Perhaps we could look at it a little more specifically in terms of a clause.

Mr. CAMERON (*High Park*): Could the deputy minister of justice draft a clause for you along those lines?

Mr. ARMSTRONG: Oh, yes; there is no problem in getting a suitable clause, but there is a problem in getting it accepted by the landlord.

Mr. CAMERON (*High Park*): Do you not think that if they were told that in most cases the maximum they would be allowed on termination of a lease would be one month there would be much greater determination to try to tell the landlord, "You have to salvage what you can out of this"?

Mr. ARMSTRONG: It would be, maybe, some incentive. I do not know that I have put my point across, that these men by and large are N.C.O.'s, and so on; the bulk of these people are not officers. They are in a relatively low income bracket. The problem of getting accommodation in many cases is a difficult one. In terms of general conditions of service under which they work, this is a very critical area for the man and his family. We have been hesitant and we have considered the possibility of actually providing a lease. We have considered the possibility of putting in one month. Our real hesitation in this is that it tends

to limit the man's ability to get the most suitable and economical accommodation that he can because he is restricted to landlords who will accept that clause.

Mr. CAMERON (*High Park*): Is it a fair statement to make that the department regards it as an administrative headache to handle it in any other way and for that reason are shying away from it?

Mr. ARMSTRONG: It is administratively somewhat difficult and perhaps not very effective if you provide a regulation that requires one month's notice and then do not apply it, if you accept all the exceptions.

Mr. CAMERON (*High Park*): Mr. Winch had a suggestion about transferring personnel, one person going to another station and another person coming into that station. Let us say that John Jones is going from station "B" and Jack Smith is coming to station "B". Then you could put Jack Smith in John Jones' accommodation. That would be part of the administrative heading.

Mr. ARMSTRONG: It is just not workable. The only way one can really do this is in fact to rent accommodation. If the department rented enough accommodation, then we could handle it.

Mr. CAMERON (*High Park*): Would it be a saving for the government if you did that?

Mr. ARMSTRONG: No, I think it would be more expensive.

Mr. NOWLAN: I was going to ask Mr. Armstrong if this is not a regional problem. For instance, in the city of Halifax I do not think it would be possible to get anyone to sign a lease with a 30 day termination notice.

Mr. ARMSTRONG: Halifax has been a very difficult area, as you yourself know, Mr. Nowlan. I would say this would be one area where it would be difficult to get one month's termination.

Mr. NOWLAN: I suggest it would be impossible unless the landlord could charge more rent.

Mr. WAHN: I am sure members of this committee do not wish to impose any hardship on the servicemen themselves. The questions which have been directed to Mr. Armstrong this morning were whether it is not possible for the local units of the department to give the servicemen more help, particularly in certain areas where accommodation is available, to get reasonable leases which would avoid undue expense to the department. I do not think any one of us is suggesting that the whole burden should be borne by the individual serviceman, but each unit has an adjutant; they have administrative officers, and the unit itself should be able to give the individual serviceman some assistance in meeting this particular problem.

Mr. ARMSTRONG: Every unit, of course, does this. If you go into a unit you find the adjutant in the orderly room has posted a list with the accommodation available. They do their best to help people. We do not provide a departmental rental service whereby we ourselves in the department would go out, seek and get accommodation, but the local units do spend a good deal of energy in helping people get accommodation.

Mr. WAHN: How do you calculate this average of \$115? Is that the average paid to a landlord, or is it the average for each move, or the cost for each move?

Mr. ARMSTRONG: This was taken for a period of six months. The first average was taken for the period from April 1, 1961 to September 30, 1961, taking all lease terminations.

Mr. WAHN: As it is an average of lease terminations it does not include any cases where servicemen moved out of your own accommodation. It is not a general average?

Mr. ARMSTRONG: No, only lease terminations.

Mr. PILON: I do think that the witness answered part of my questions, but would the department not consider the appointment of a billet officer in large cities?

Mr. ARMSTRONG: If we were to get into this business my expectation is that it would cost us more money than the system we are using now. What we do now is that the individual is responsible for getting his accommodation. He gets assistance from his station or from his unit in terms of the assistance that they can provide. We as the department do not go out and rent accommodation, which is in effect what happens if you get a billet officer. We have some arrangements, mind you; we have entered into some agreements whereby we have had housing constructed that is then rented to servicemen. That is the case here at Uplands where, as you probably know, there are over 300 housing units that have been built and are administered by the station. We provide mortgage money to assist in that construction. We have other arrangements of that kind, but in spite of all this we still have 50,000 people who have to look after themselves.

The CHAIRMAN: Thank you, gentlemen.

We will move on to the next item.

Mr. HENDERSON: I would suggest we might now return to the 1962 report and clean up the three or four items there. I am sorry we have to jump around.

The first item is paragraph 78 appearing on page 31, renovation of remote transmitter station, Halifax. This paragraph deals with the renovation of a station in Halifax. You will see it is outlined here how the contract awarded for renovation of the station was amended to an amount more than double its original cost.

This matter was brought up before the public accounts committee on June 4 of this year, at which time we had a brief discussion about it in which Mr. Winch, Mr. Tardif and Mr. Ryan participated. We held it over pending Mr. Armstrong's appearance.

The CHAIRMAN: Has anyone a question? Mr. Hales?

Mr. WINCH: I might ask the reason.

Mr. TARDIF: The original question was, if soundings were taken before this was built, there is no apparent good reason that so much rock was found after the contract was given which was sufficient to double the price?

The CHAIRMAN: You will follow Mr. Hales, Mr. Tardif.

Mr. HALES: My question is who was responsible for the site test drawings?

Mr. ARMSTRONG: Mr. Hales, I do not have with me the actual name of the engineering firm. The site survey work was done by an engineering firm. I do not have the name with me, if that is what you want. The survey that was taken was similar to those which had proven satisfactory with regard to other installations of the same nature. It turned out that the particular survey which was used did not disclose the rock conditions which existed here.

Mr. HALES: We realize that, but we would like to know who made the test drawings, who drafted this up, or under what conditions the man was given the job to do this. What were the terms of reference, and on what basis was he paid? If he did not give the correct drawings, was he to be paid, or not paid?

Mr. ARMSTRONG: He had to do the job on the plan for the site survey. However, if we were to discover the conditions which actually existed, it would have been necessary to do a great deal more boring. In this regard, our engineers say that to have done enough borings in the survey to disclose these conditions, would have cost a great deal more. Now, the survey that was done is one that is similar to others for similar installations which have proven satis-

factory. It did not prove satisfactory in this case in disclosing the actual conditions; but to have done a different survey, my engineers inform me, would not have reduced the total cost.

Mr. HALES: It would appear there is not much use having drawings made if you do not do a complete job and end up paying double the cost in any event. You might have spent a little more money and have had a good survey made to start with.

Mr. ARMSTRONG: This depends; as I say, the survey made had proven to be satisfactory in similar installations. If a boring had been made for each mast and each anchor point, we would have found out exactly what existed in the rock formations there, but it would have cost a lot more money. That is the situation.

Mr. HALES: Has this happened on other occasions, and have you made a new approach to this problem so that it will not happen again?

Mr. ARMSTRONG: We have not made a new approach to the problem so that it will not happen again; I am sure it will happen again. However, we had a site survey made by a reputable engineering firm on a plan which had worked satisfactorily up to this point. It did not work in this case. I think, undoubtedly, we will run into other cases where the particular site survey will not work. I would not like to say we will never run into it again.

Mr. TARDIF: Personally, I am a little surprised that a thorough survey would cost as much as double the original contract. I am wondering whether the removal of the stone and earth in this particular job was done at unit prices?

Mr. ARMSTRONG: I do not know whether or not I have that specific information. I would say it certainly would be done at unit prices.

Mr. TARDIF: If it is done at unit prices, it eliminates the problem of the contractor proving that this was necessary.

Mr. ARMSTRONG: Well, it means, if it is done at unit prices, you would pay according to the excavation.

Mr. TARDIF: Yes. I am sure the engineers who did that are not with the department any longer.

Mr. ARMSTRONG: This was not done by departmental engineers. It was done by an engineering firm appointed by the department. What our own engineers said was that if the test borings had been taken at each mast—they were taken on a standard pattern at similar installations—and at each anchor point, the extra cost of the survey work, at least, would have equalled the extra construction cost in this larger figure, and in the final analysis we would not have come out at a lower price.

Mr. TARDIF: This might be so, but I am going to be hard to convince.

Mr. WINCH: The extra engineering would have cost a quarter of a million dollars.

Mr. ARMSTRONG: That is not what they say. They say, with the combination of the extra engineering and perhaps some reduction in the quarter of a million dollars if they had had all the necessary information in advance, the total cost would have come out at approximately the same thing.

Mr. TARDIF: I did not receive an answer to my question with regard to whether or not there were unit prices.

Mr. HENDERSON: I have here the authority of treasury to amend the contract. This is where the extra amount was authorized to bring the total cost up to \$497,000. This recites the circumstances much as are stated in the note in my report. It was necessary to revise the whole job beginning with construction of 20 guy anchor bases and relocation of the antenna. There was a set price for constructing the antenna masts and the guy anchors. Then, it sets out the tower

bases at unit prices, and the guy anchors—so many units—at so much money. The contractor allows the claim for the foundation based on the original design, and we arrive at the final amount of money to be paid to bring it up to the amount of \$497,000.

Mr. TARDIF: Which means, this was all done after the original contract was given. All the changes were made after the original contract was given?

Mr. ARMSTRONG: Yes.

Mr. HENDERSON: The original contract was a firm price contract for the figure stated in the note which is \$229,330.

Mr. TARDIF: I wonder, Mr. Chairman, whether Mr. Armstrong considers the engineering work on this project was properly done if it necessitated changing the specifications to the point of doubling the price of the contract. Mr. Armstrong said this may happen again. I would suggest that precautions should be taken to see that it does not happen again, at least not too often.

Mr. ARMSTRONG: You can rest assured we will take care and caution to avoid it. When you say the engineering work was not done properly, I think one has to remember in a circumstance like this, it was not what one would want, and the survey that was made in the final analysis really was not adequate to this particular site.

Mr. TARDIF: I am not a professional engineer and I know it may be difficult to figure out how much rock there is; but it is not difficult to put a rod in the ground and find out where the rock is, and apparently in this case they did not even know that.

Mr. GRAFFTEY: If a complete boring had been made which showed this rock formation, would a partial or a complete relocation have been considered? That question was asked, but more specifically I would like to know under what general circumstances it would have been considered. Was it necessary to place the installation in a specific area? Could relocation have been considered?

Mr. ARMSTRONG: The placement of any antenna of this nature requires a specific area. I am sorry I cannot say specifically that this had to be the site.

Mr. RYAN: Mr. Chairman, this would appear to be the renovation of an existing remote transmitter station, and the fact that it existed would lead one to believe there had been soil testings made when the station originally was built. In the situation where the site test drawings indicated the bedrock to be from two to 14 feet below the surface, it would seem to imply that this was based on the original soil tests and not on further soil tests made for the outlying installations that were subsequently found to be necessary. Is this the situation?

Mr. ARMSTRONG: No; that is not the situation. A survey was made by an engineering firm.

Mr. RYAN: How could they make such a mistake in their soil testing?

Mr. ARMSTRONG: The plan for the survey, as I said, was similar to a plan which had been used at other, similar installations. The survey which we had proved satisfactory for this type of operation.

Mr. RYAN: Who would make these soil tests?

Mr. ARMSTRONG: They were made by the engineering firm. I do not have the name. Perhaps Mr. Henderson has it?

Mr. HENDERSON: No, we do not have it at the moment.

Mr. RYAN: Should they not be held responsible for their error?

Mr. ARMSTRONG: They did not make an error. They made a survey in accordance with the plan which was laid out for them, but the plan itself was not adequate to give you all the information.

Mr. WINCH: Who did make the original plan? Was it your engineers?

Mr. ARMSTRONG: It would be approved by our engineers, yes.

Mr. RYAN: If some testing was made, surely it would have revealed at some point that the rock was 18 feet or .25 feet below the surface.

Mr. ARMSTRONG: What I am saying to you is that this is information which my engineer gives to me, that this type of survey had proven satisfactory in a great majority of similar installations. But if test borings had been taken at each mast and anchor point, they would have disclosed the formation below each one, with the function of additional cost of survey, plus the cost of doing the job which we would have to do in any event, but which would not have reduced this price really. It would have come out to about the same thing.

Mr. RYAN: I think it is a pretty poor way to go about it. I think that when we are trying to correct things like this, we should be told actually how many new soil test borings were made before the contractors left.

Mr. ARMSTRONG: I do not have that information, but I could get it for you.

Mr. WAHN: I would like to ask Mr. Armstrong whether any thorough examination was made by the department in the light of the report made by the Auditor General in regard to this specific occurrence which is rather unusual, I mean the doubling of the initial cost. Mr. Armstrong mentioned that he received reports from his engineers, and I gather he has accepted those reports.

What this committee is interested in is determining whether in fact somebody had made a mistake. Of course, we all know that mistakes are bound to happen when you are doing a great deal of work. But what we are concerned with here is to minimize the number of mistakes. Obviously mistakes will not be minimized if any explanation is accepted by the department when somebody runs into something like this. Has he actually satisfied himself that there were no mistakes made, and that this was a sensible way in which to proceed? That is what we are trying to find out.

Did you make an investigation, or did some responsible person in the department make a thorough investigation to find out? When this overrun occurred, did you think it was a mistake on the part of the original engineering firm, or did you just accept the responsible assurance made by your engineers?

Mr. ARMSTRONG: In every Auditor General's report we have made an examination as thoroughly as we can. I have an assistant deputy minister who is the engineer in charge, as far as I am concerned, of the construction business. If I receive an Auditor General's report of this character, I give it to him to examine, and to go into it with the service engineer and others who have been involved. He has examined this and I have gone over the story with him. He has been satisfied and I am satisfied that, having regard to all the circumstances that exist here, the actions that were taken were reasonable actions in the circumstances. That is why I say to you that I do not think we will ever avoid some situations of this kind. There will be situations arising from time to time in the future in which our engineering surveys do not prove to be really adequate in the final analysis. I am afraid that is likely to happen again to some degree. We will certainly do our best to avoid it, but I do not think that anyone finds that these situations do not occur in the construction business.

Mr. TARDIF: What was the name of the engineering firm which did this job?

Mr. ARMSTRONG: I do not have the name with me.

The CHAIRMAN: Probably Mr. Armstrong can obtain that information and forward it along with the other information he is going to obtain.

Mr. TARDIF: Will you also give the name of the contractors?

Mr. HENDERSON: The contractors were the Common Construction Company of Montreal.

Mr. SOUTHAM: May I ask a supplementary question, Mr. Chairman?

Were other tenders bid for this particular contract? If so, what were the amounts and did they have access to private engineering assessments, or did they take the department's advice along this line?

I ask that because I agree with other members of this committee in that this is a startling error on somebody's part, an error which increased the original from \$229,000 to over half a million dollars—\$516,556, I cannot agree with the suggestion that it is probable that this could happen again; I think it is an indication that it should not happen again. We should tighten up our precautions so that this type of thing will not happen again.

Mr. HENDERSON: Would you like me to mention the tenders received?

The CHAIRMAN: Yes, please do, Mr. Henderson.

Mr. HENDERSON: This is according to the advice to the treasury board at the time the original contract was up. I do not know if you wish me to mention names, Mr. Chairman.

Mr. CAMERON (*High Park*): Of course.

The CHAIRMAN: They would be available on answer to a question.

Mr. HENDERSON: There is a tabulation, and I will give you the name, the firm price, contingencies, fixed rates and then the total.

Mr. FRANCIS: Was the tender not called on a unit price?

Mr. HENDERSON: The ones I have here are on a firm price basis.

Tenders were invited from all firms considered to be in a position to provide the services required, and seven firms submitted tenders.

Mr. FRANCIS: On the basis of estimated quantities, presumably.

Mr. HENDERSON: This is for the installation and renovation at the transmitter site. This is for the whole job.

Mr. TARDIF: In accordance with the original specification submitted?

Mr. FRANCIS: The specification would have estimates of quantities; it would have to have that.

Mr. HENDERSON: The people who submitted tenders were E. P. Electric products Co. Limited of Montreal, \$129,992; Common Construction Company of Montreal, whose revised figure was \$249,079; Canadian General Electric Company of Toronto, \$365,944; Canadian Aviation and Electronics Limited of Winnipeg, \$378,000; National Telecommunications Supply Limited, \$502,739; E.M.I. Cossor Electronics Limited, \$559,604.

Mr. WINCH: Two firms almost on the beam.

Mr. GRAFFEY: Were all these companies supplied with the boring finds about which we were talking?

Mr. HENDERSON: I believe that would be so.

Mr. GRAFFEY: That would be in the specification?

Mr. HENDERSON: E.P. Electric Products Limited had the lowest over-all price, but after investigation they found their tender was unrealistic and withdrew their specification. Common Construction Company, who finally got the job, submitted the next lowest quotation and based their price on completing construction before freeze-up. The construction was to take place during the winter months and the proposed contractor revised his price upwards to the figure I gave you. The increased cost for this type of winter construction is standard for many firms in this area and has been confirmed as being in force for many years by the electric commission of the city of Montreal. The revised price was still the lowest and was recommended for acceptance.

Mr. TARDIF: Of course there is a deposit with the bids on these contracts. Was the deposit in respect of the lowest tender confiscated or was it returned?

Mr. HENDERSON: I do not have that information here but we would expect it to have been returned.

Mr. TARDIF: I would suggest that this happened at this time, but there is a possibility, when there is a great deal of difference between the lowest and second lowest tender that the contractors have reached an agreement between themselves. If the deposit with the bid is not returned this makes it more difficult for an agreement to be reached.

The CHAIRMAN: Probably that information can be obtained and furnished to you as well.

Mr. Winch indicated he had a question.

Mr. WINCH: Yes, I have one short question.

In a case like this where the department has to pay over double the fixed contract price, what allowance if any is made as profit to the company in view of the fact that the company has to do double the amount of work?

Mr. ARMSTRONG: Mr. Winch, this is a matter for Defence Construction Limited to decide. As you know, we do not have anything to do with the contractual arrangements in the Department of National Defence. Mr. Henderson may be able to find that information in the documents he has.

Mr. HENDERSON: It will take a few moments to look up that information.

The CHAIRMAN: While that information is being looked up could you ask your question, Mr. Cameron?

Mr. CAMERON (*High Park*): I should like to ask Mr. Armstrong whether he has placed the responsibility for this situation. In other words, who made these borings? Perhaps the fault lies with the engineer who prepared the site map. Certainly you cannot blame the situation on the contractor because he has based his contract on the information supplied to him.

Mr. ARMSTRONG: I do not think you can blame the situation on the contractor, as you say. In so far as the engineering survey itself is concerned, as I said earlier, it was based on a design that had been applicable and found to be satisfactory.

Mr. CAMERON (*High Park*): This would involve a calculated risk, would it not?

Mr. ARMSTRONG: In a sense I suppose that is so, and you do a site survey based on that plan. However, perhaps in fact it may turn out on occasion not to have been an adequate one.

The CHAIRMAN: Would you put the microphone a little closer to you Mr. Cameron, we are having trouble picking you up?

Mr. CAMERON (*High Park*): What I deduce from the evidence so far is that the test engineers took a survey and based their findings on the hypothesis that the rock formation was more or less of uniform character, and they would not find these pockets where apparently the antennae had to be anchored to rock and, therefore, their report was erroneous and the information passed on to the contractor was erroneous. Do you not think that rather than accepting this as the best way of doing it, because of a number of situations like this that have developed, creating problems, the people involved should state that certain areas are those areas where the essential strength of the construction lies, and make their tests at those points? I think either the instructions to the engineer were inadequate or their work was not properly performed.

Mr. ARMSTRONG: I think this involves a matter of engineering judgment. Obviously, based on the survey that you have made and the borings you take, you make a judgment regarding the conditions that will be found when the work is done. The greater number of borings you take the more sure you will

be, of course, that you are right in your judgment. In respect of this case this certainly did not turn out to be sufficient.

Mr. CAMERON (*High Park*): On that basis the department had to bear the loss.

Mr. ARMSTRONG: Mind you, when you say the department had to bear the loss, if you discover in advance the rock conditions you still have to pay unless you are able to find another site. The department would still have to pay for the work involved.

Mr. CAMERON (*High Park*): That may be how it eventually would work out but there is no evidence of that, and if the contractor had known exactly what he had to face he might have given a different bid, but it might not have cost double the original estimate or bid.

Mr. ARMSTRONG: That is possible, and I agree with you, of course, but as the Auditor General has pointed out in this particular instance, there were some other factors involved.

Mr. CAMERON (*High Park*): Have you any idea how many borings were made?

Mr. ARMSTRONG: I do not know the actual number but I could get that information for you.

Mr. HENDERSON: The actual number of borings is 12.

Mr. TARDIF: How big a site was involved?

Mr. ARMSTRONG: I do not know the actual area, but I think it probably would be located on about an acre of land. That is a guess. I will have to find out exactly for you.

The CHAIRMAN: Mr. Henderson now has the answer to the question asked by Mr. Winch.

Mr. HENDERSON: I wanted to give an answer to the question asked by Mr. Winch by referring to our working papers. It seems clear that the contractor was working on a very narrow margin here, and as work proceeded he realized that he was headed for trouble. It was a firm price contract but our notes indicate that his margin of profit was of the order of five per cent. He was allowed a similar percentage for his general administrative expenses, and he was allowed something for overhead, so that his profit, according to our notes, was five per cent.

Mr. WINCH: May I ask one more question? I must admit I am rather amazed at some of the information given by Mr. Armstrong. I am not a construction engineer, but ever since I was 17 years of age all my work has been on construction, and for the life of me I never have heard of any general engineering survey approach spread over. If you are going to put up a building on Wellington street, the situation may be entirely different to that which exists with regard to building here on the hill. There is almost solid rock on the hill, whereas there may be no rock at all on Wellington street. Before any construction job is commenced, there is an engineering survey showing how far they have to go down. I have never heard of a general engineering survey; engineering has to be on the exact site. I would like you to explain further about this general engineering survey used in more than one area.

Mr. ARMSTRONG: I do not say it is a general engineering survey. We did not have a survey which had been applicable to a number of sites; I said there was a survey made on this site by an engineering firm and the type of survey that was taken at that site was similar to a type of survey used in other similar installations at other sites which had proven to be satisfactory. However, there was a survey made on that site.

Mr. WINCH: Mr. Armstrong, you are proving my case. You had to have rock anchorage for this particular type of installation. It is quite obvious that somebody did not ascertain on the site how far down they had to go in order to get the rock anchor.

Mr. ARMSTRONG: I think it is perfectly clear that the survey taken was not adequate; that is quite obvious from the information before us. What I do say, however, is that our own engineers said that if an adequate survey had been made at each one of the anchor points, the cost of that survey, associated with the rock which in the final analysis had to be excavated, in their judgment would not have resulted in an over-all reduction in cost.

Mr. WINCH: I will grant that, but what I, and I believe many of the other members of the committee are interested in is what is the use of an engineering survey if you do not obtain the information you require for the installation? It is just as clear as that.

The CHAIRMAN: Mr. Ryan is next, and then Mr. Grafftey.

Mr. RYAN: Mr. Armstrong, I think we should have the number of new foundations which were necessary under the contract; that is, the number needed to go down to bedrock for these antenna masts and guy anchors. Can you give us the number?

Mr. ARMSTRONG: The plan provided for rod depth tests for 12 positions equally distributed over the area.

Mr. RYAN: They were not at the actual site where the anchors were to be.

Mr. ARMSTRONG: At the site of construction.

Mr. RYAN: They were done equally over the area of an acre, or so, and not at the actual positions where the guy anchors or masts were to be placed.

Mr. ARMSTRONG: No. Soundings were not taken at each position. They took 12 borings.

Mr. RYAN: They were very general.

Mr. ARMSTRONG: They took the information from those 12 borings and interpreted that in estimating the information for the whole site.

Mr. RYAN: Could you give us the number of new foundations that were required under the contract?

Mr. ARMSTRONG: I am not sure that I have that information here.

Mr. HALES: Mr. Chairman, I do not know whether or not we wish to pursue this any further. If we do, then I think we should have a special meeting at which we would have before us the officials who can answer all these numerous questions. I think our first decision should be whether or not we wish to pursue this further. If we do, then perhaps we should have before us the officer of government who issued the contract to do the survey, the engineer of the Department of Defence Production who requested the survey, and then we should have information with regard to how many tests there were, and so on. I believe this is a decision which the committee will have to make now.

The CHAIRMAN: Is it your suggestion that the matter be left to the steering committee, and that the steering committee would make a report back based on the evidence and the statements disclosed so far? Is that in order?

Mr. HALES: Yes.

Mr. ARMSTRONG: I have the information. There were 134 anchors and 41 mast bases, for a total of 175.

The CHAIRMAN: Mr. Armstrong has been kind enough to agree to step down for a moment. Mr. Driedger, the deputy minister of justice, is here, and there are

a number of items which will engage his attention. Mr. Henderson might take a short recess while we ask Mr. Driedger to come up to the head table.

Mr. WINCH: Mr. Chairman, may I ask how long you intend to sit? There is a meeting of the defence committee at 11 o'clock.

The CHAIRMAN: I am hoping we might carry on with Mr. Driedger, and then having done that, we can decide what we wish to do about continuing with the evidence of Mr. Armstrong.

Now, gentlemen, I think I should introduce to you Mr. Driedger, the deputy minister of justice. Mr. Driedger has appeared before other committees and most of us are acquainted with him. He has very kindly consented to appear here this morning in respect of a matter which your Chairman raised last week, which involves the position of the Auditor General who is an agent of parliament. On the basis of my understanding, the Minister of Justice is the adviser to the government and, from time to time in the past, there have been very friendly discussions between the Department of Justice and the Auditor General, including advice from the department. However, it has been apparent that situations may arise—looking at it from a professional viewpoint—where it may be very difficult and embarrassing for the Auditor General to receive legal advice from the constitutional adviser to the crown, particularly when this is in respect of another department of government, and when opinions already have been given to the department concerned. With this in mind, I brought up this matter and subsequently telephoned Mr. Driedger who agreed to appear here this morning.

I am going to ask Mr. Driedger to be good enough to give us his views on this issue. This simply may be a tempest in a teapot. Mr. Henderson, did you wish to say a few words first?

Mr. HENDERSON: First, may I say to members of the committee that your Chairman was kind enough to say to me and Mr. Driedger that he himself wished to raise this problem with us. Therefore, I am indebted to him as I will be to you for your comments. However, I would not like to leave any impression in the mind of any member of the committee that the relations between Mr. Driedger and myself have been anything but friendly throughout my tenure of office as Auditor General. In fact, I have come to rely on opinions of himself and his officials very considerably, as my predecessors have done ever since the audit office was established some 80 years ago. I thought I should like to say that, sir, because while Mr. Driedger and I talk about these things from time to time I think, as he will tell you himself, his views on the subject stem from sources totally unrelated to me.

The CHAIRMAN: Would you proceed now, Mr. Driedger.

Mr. E. A. DRIEDGER (*Deputy Minister and Deputy Attorney General, Department of Justice*): Thank you, Mr. Chairman.

Perhaps I might begin by indicating what my position is as I see it.

Under the Department of Justice Act the Minister of Justice is the official legal adviser of the Governor General and the legal member of Her Majesty's Privy Council for Canada.

In his capacity as Attorney General of Canada he is required to advise the heads of the several departments of the government upon all matters of law connected with such departments. These advisory functions normally are exercised through the deputy minister of justice who is also the deputy attorney general of Canada and ordinarily legal opinions to government departments are given by him. However, there are situations where it is more appropriate that the deputy should give his advice to his minister, leaving it to him to advise his colleagues.

The Auditor General is not a member of the executive and is not the head of a department of government within the meaning of the Department of Justice Act. Strictly speaking, therefore, it is not the function or duty of the minister or his deputy to advise the Auditor General directly on legal matters. However, my predecessors and I always have tried to be helpful whenever we could, and there have been occasions when they and I have expressed legal opinions to the Auditor General on matters referred to us by him, no doubt there will be occasions in the future when it will be possible so to assist the Auditor General, at his request.

It is not possible for me to take on the role of legal adviser to the Auditor General for the following reasons. First, many, if not most, of the cases in which the Auditor General might wish to be advised involve the legal aspects of transactions within a government department. Obviously I could not be the legal adviser to both parties because that would involve me in a conflict of duty. And, since I am bound by the statute and by my position to be the legal adviser of government departments, I cannot at the same time also advise the Auditor General on matters that are or might be at issue between them. Secondly, the relationship between me and the government departments must necessarily be one of complete confidence. That relationship could not be maintained if in respect of a matter that has been or might be referred to me by a government department I undertook to advise the Auditor General.

The CHAIRMAN: Thank you very much, Mr. Driedger. Your statement has been very helpful, very frank and quite complete.

Gentlemen, have any of you questions to direct to either Mr. Driedger or Mr. Henderson in respect of this particular statement?

Mr. WINCH: Yes, Mr. Chairman. I should like to ask Mr. Henderson whether upon occasion he does find that he requires legal advice in order to resolve, at least in the minds of the departmental heads, a problem they have come up against?

Mr. HENDERSON: Yes, sir.

Mr. WINCH: If so, outside the general co-operation you have, exactly how have you dealt with such a situation in the past?

Mr. HENDERSON: In the past I have outlined my problem by letter, followed up by a discussion with Mr. Driedger. That has been my practice and the practice of my predecessors, and Mr. Driedger has been good enough to render his considered opinion in respect of the questions I have asked. I have felt it necessary to do that because we encounter a number of situations in the course of our work in respect of which we feel a legal opinion is vital.

You are familiar I think with one of the cases in particular, which we shall be discussing in this committee again in one or two weeks, which relates to the situation surrounding the Canada Council. My officers and I questioned the manner in which the council was proposing to distribute the profits and interest of its university capital grants fund, which is a substantial figure, as you will recall. After studying the matter very closely we felt that legal opinion regarding the validity of these transactions should be obtained. Accordingly, I addressed the problem to Mr. Driedger and he was good enough to give it very close study and to advise me. It was important that I do that, as I think you will agree, in complete fairness not only to my own position but to that of the officers of the Canada Council. You may recall we discussed this when the officers were before this committee last December.

Again I have questions arising in connection with the interpretations that departments place on various sections of their statutes and regulations in respect of which we want to have a separate opinion. In fact, I regard the obtaining of such opinion as quite important in presenting the facts to you

either through the medium of my reports to the House of Commons or to this committee. You are entitled to ask me whether in respect of a comment I am making on some given situation I had obtained a legal opinion. I am not a lawyer, and like all auditors carrying out this type of work, I must have recourse to legal help when I need it. I think it is important that I have that recourse because it would be surely presumptuous on my part to present some of these facts to you without benefit of such advice. That is the way I see it, and I may say that is the way my predecessors in office have seen it.

The CHAIRMAN: Do you have a question, Mr. Grafftey?

Mr. GRAFFTEY: Mr. Henderson, having heard your remarks can we assume that at the present time in your office there is no official with formal legal training, and if that is the case, and as a result of the circumstances that have been described to us today, do you think it advisable that your office be provided with a full time counsel? Is the volume of work in your feeling sufficient to justify a full time counsel attached permanently to your office, or do you feel the solution to the problem lies in the creation of a vote substantial enough to enable you to seek outside legal opinions in respect of these matters?

Mr. HENDERSON: I do not believe that the volume of work I would have to refer to a legal officer would justify his full time employment on my staff, Mr. Grafftey. This problem involves more the situation of requiring someone, shall we say, on a retainer basis, or someone circumstanced, as Mr. Driedger and his associates are, to whom we can refer specific cases.

Mr. GRAFFTEY: Have you come to the conclusion in your thinking, Mr. Henderson, that it is not desirable to consult lawyers working either for the Department of Justice or another government department?

Mr. HENDERSON: The point that Mr. Driedger has made has been the subject of a number of discussions between us.

Mr. GRAFFTEY: That is right.

Mr. HENDERSON: I fully appreciate and find myself in agreement with the point of view that Mr. Driedger has advanced. This is something I foresaw myself a number of years ago and in fact discussed with the minister of finance of the day, in respect of which it seemed to me I could be putting Mr. Driedger in a rather difficult position.

Mr. GRAFFTEY: This situation involves the same dangerous principle of a lawyer advising both sides to a dispute; is that right?

Mr. HENDERSON: I thought so, sir.

Mr. GRAFFTEY: Yes.

Mr. FRANCIS: Mr. Chairman, I should like to pose as briefly as possible that same type of question.

Mr. Driedger was very careful in giving a precise statement, but what specific recommendations does he make to cope with this situation? How does Mr. Driedger feel the Auditor General should obtain a legal opinion in the circumstances which arise?

Mr. DRIEDGER: Frankly, Mr. Francis, I do not have any suggestion to make to you. This is a problem in respect of which I do not know the solution. As I believe Mr. Henderson suggested to one member of this committee, it might be possible for Mr. Henderson to make an arrangement with some lawyer not working for the government, whom he could consult from time to time. However, I can see that that solution might present some further problems.

Mr. GRAFFTEY: Would the lawyer involved necessarily have to be specified? I think every legal firm in the country, or every lawyer, does a certain amount of

work for the government. I am referring to private law firms. Do you think it would be necessary to specify that Mr. Henderson and his officials must consult individuals who are absolutely not doing any work for the government? I think obviously a lawyer would not accept a case in respect of which he would be advising both sides.

The CHAIRMAN: We hope that is the case.

Mr. Francis was pursuing his questions.

Mr. FRANCIS: I should like to ask Mr. Driedger this question. Can you see anything wrong in the idea of the Department of Justice setting up a small section, not identified with the normal requests for opinions made by government departments, to look after this type of inquiry? I appreciate the fact there is a problem, but somehow we have to arrive at a solution. It seems to me the Auditor General has a perfectly legitimate point in suggesting that he requires legal advice under certain circumstances but that the volume of work probably would not justify the development of a legal section entirely within his control, and because of many reasons including that connected with the career development of officers, the Department of Justice is normally the place where legal talent will seek employment in the government service. Do you envisage anything wrong in the suggestion that you set up a section in your department which would not normally have a line of duty identified with departmental administration, but which might be available to advise the Auditor General and others in a position similar to that in which the Auditor General finds himself?

The CHAIRMAN: Are you thinking of members of parliament as well, Mr. Francis?

Mr. FRANCIS: No, I was not going that far, Mr. Chairman, but I should like to hear Mr. Driedger's answer to this question.

Mr. DRIEDGER: Two thoughts occur to me. The first is, whoever the civil servant or public servant is, he must be responsible to some minister. If you have a civil servant within the Department of Justice he must necessarily be responsible to the minister.

Mr. FRANCIS: There is nothing wrong in that regard.

Mr. DRIEDGER: The functions of the minister are clearly set out in the Department of Justice Act. His duties and functions are clearly set out.

Mr. FRANCIS: Perhaps an amendment to the act would answer that problem.

Mr. DRIEDGER: Secondly, I doubt very much whether there would be enough business from the Auditor General either to attract any lawyers or keep them busy.

Mr. WINCH: Perhaps Mr. Francis would recommend Dick Bell, on a retainer basis.

The CHAIRMAN: Have you completed your questions, Mr. Francis.

Mr. FRANCIS: No. Mr. Driedger has indicated he does not think there is sufficient work generated by the Auditor General's office to warrant the creation of a section such as that to which I referred. He feels that the Department of Justice Act places certain limitations on the functions of the Minister of Justice in his obligation with regard to public service. Do you consider it possible to amend the Department of Justice Act in such a way that it would permit the development of this kind of section? I think if Mr. Driedger reflected upon this suggestion a little he would find there might be some section of the department that could look after the sort of requests that are forthcoming, solving the problem, because the Auditor General does have a problem, we do have

a problem, and the government of Canada has a problem. It has to be worked out somehow and I am trying to press Mr. Driedger to give us his specific recommendations.

Mr. DRIEDGER: Mr. Francis, at the moment I cannot give you any recommendations because I really have not tried to work out a solution.

The CHAIRMAN: I did not mean to interrupt you, Mr. Francis. I have on my list the names of Mr. Ryan and then Mr. Wahn.

Mr. RYAN: Mr. Chairman, I wonder whether it would be possible for Mr. Driedger's department to continue to give advice to the Auditor General in view of the fact his department is the legal department of the government and is in the best possible position to advise in respect of many minor matters which do not necessarily involve a conflict of interests. I think the Department of Justice should consult with Mr. Henderson and his officers in many given respects. Mr. Henderson could certainly in a minute or two, find an answer to many of the minor problems with which he is faced by calling upon the Department of Justice, in respect of which he might otherwise find it necessary to go to the trouble and expense of employing counsel. It seems to me that only in cases where the Department of Justice resists the giving of advice should he necessarily consult independent counsel.

Mr. DRIEDGER: I should like to reply first of all by endorsing what Mr. Henderson has said. I think I can say our relationship has been very good and there is no reason why he should not call me on a variety of matters to give him some assistance. We have always done that and I hope we will continue to be able to do it. The position I am taking is that I cannot assume the role or position of a general legal adviser to the Auditor General, but of course there are many matters in respect of which I might be able to be of assistance to him.

Mr. RYAN: Apparently he does not have that many real problems which arise where there is a conflict involved. Is it not feasible for you or your officers to simply state to Mr. Henderson that such a case is one in which you do not feel your department should give an opinion, and ask him to seek an opinion elsewhere? Could that relationship continue or evolve if it is not in existence?

Mr. DRIEDGER: That is exactly what we have been doing.

Mr. FRANCIS: Where is "elsewhere"?

Mr. RYAN: "Elsewhere", perhaps not under these circumstances, or perhaps even under these circumstances, should be that place where an independent legal opinion can be obtained when there is a serious question involved.

Mr. WINCH: I do not wish to interrupt but just to follow up that particular point, could you tell us now in respect of the past several years how often you have been in the position of having to inform Mr. Henderson that you could not advise him because of a conflict?

Mr. DRIEDGER: There may have been one or two such occasions, although I am not sure. I think perhaps the position has been that the Auditor General has recognized that he really could not ask me for an opinion without putting me in a position where I would be involved in a conflict of duty and has refrained from doing so.

Mr. WINCH: I see.

Mr. DRIEDGER: I think perhaps that is closer to the situation.

Mr. HENDERSON: That is correct.

Mr. WAHN: Mr. Chairman, I think all members of the committee will agree that the statement made by Mr. Driedger is entirely reasonable, but I should like to ask him this question. This situation has come to light and there has been some indication that there may be a change in the actual practice of Mr. Driedger and his officers giving advice quite freely to the Auditor General. Is

there any suggestion being made that there will in future be any change whatsoever in the practice that has prevailed in the past?

Mr. DRIEDGER: Perhaps not, but going back over the years there have not been very many occasions when the present Auditor General or his predecessor have sought a formal legal opinion from our department. On most of these occasions they have been given such an opinion, although in some cases they have not.

Mr. WAHN: The practice will then continue, is that right?

My next question is this. Reference has been made to a possible conflict of duty in the event an opinion was given to the Auditor General. However, by statute the duty of the Minister of Justice and his deputy is to advise the department, and there could be no conflict of duty if such were done with the consent of the department involved. For example, there are many instances in respect of which many law firms are asked to give an opinion, and with the consent of a client that opinion is made available to another party. There is not considered to be a conflict of duty in this case.

Mr. DRIEDGER: Of course, if a department asked me to give an opinion in respect of a matter under discussion between that department and the Auditor General I would give it.

Mr. WAHN: I am taking the suggestion a little further. If the department gave you consent you would feel entirely free to give an opinion to the Auditor General; is that right?

Mr. DRIEDGER: Yes, sir.

Mr. WAHN: There would be no conflict of duty under those circumstances.

Mr. DRIEDGER: If that situation developed the usual procedure would be for the department itself to ask for the opinion.

Mr. WAHN: Yes, but in either case the conflict of duty principle, as I understand it, would not be involved because, as has always been my understanding of the practice of law, with the consent of the client a lawyer is entirely free to give a legal opinion to a party who may even have a conflict of interests.

This situation creates another question in my mind. Sometimes during meetings of this committee I have had the feeling that the witnesses who have come before the committee have been rather defensive in relation to statements made by the Auditor General. This may result because of the idea that the Auditor General is regarded as a sleuth of the House of Commons and sleuths are unfortunately sometimes not too popular. Nevertheless, the purpose of the Auditor General and the purpose of this committee are to attempt to make the operation of these departments more efficient, and I am afraid we will not be very successful if the individual departments adopt an arm's length attitude vis-à-vis the Auditor General and resist the suggestions made by him.

I have very definitely had the impression, after listening to many of the witnesses, that they tend to resist suggestions made by the Auditor General, and indeed by this committee. I have almost had the impression that they were at times attempting to cover up, and I hope that language is not too strong.

It seems to me there should be no conflict of interest surely between a government department and the Auditor General, particularly in view of the fact suggestions made by the Auditor General and by this committee are designed to make the operations of a department of government more efficient.

What I am suggesting, Mr. Chairman, is that I think it would be a most unusual circumstance in which a department would refuse to give consent to the deputy attorney general to give a legal opinion to the Auditor General. I should like to hear Mr. Driedger's comments in that regard if it is not wrong to ask him.

Mr. DRIEDGER: As I mentioned earlier, I think perhaps the normal procedure in those circumstances would be for the department concerned simply to ask us or me for an opinion. We would have to get our terms of reference from that department. We would have to obtain the documents, material and information from that department and discuss the situation with the officials. I think that is the proper way to do this. If those officials said I was free to give advice to the Auditor General in respect of the matter in question and in respect of which they were concerned I would still have to go back to the department itself to obtain the necessary information and documents and to interview the officials of that department. So for all practical purposes I would simply be advising the government department at the request of their officials.

Mr. WAHN: The point I have in mind is whether it would be possible, in respect of a case where the Auditor General wanted a legal opinion, for him to request that legal opinion from the deputy attorney general, in which case the deputy attorney general would seek the consent of the department concerned and, if that consent were forthcoming, render an opinion to that department with perhaps a copy going to the Auditor General?

If the department refused, then obviously the Auditor General should have some method of obtaining an appropriate legal opinion by retaining outside counsel.

Mr. DRIEDGER: Frankly, I would prefer that the initiative should come from a government department rather than from me to give a legal opinion on a matter involving a department.

Mr. RYAN: That puts Mr. Henderson in the position of having to ask the department for an opinion.

Mr. GRAFFTEY: At this stage in our discussion it seems that we have arrived at some general consensus. We have an agent of parliament, namely the Auditor General. As a member of parliament, personally I would like to take this opportunity of thanking you for bringing up this most important subject. The Auditor General, the agent of parliament, as I see it, has to seek independent legal advice; he has to seek this advice from advisers who are neither working for the government nor advising the government. I am astounded that Mr. Francis feels that an employee of the Department of Justice would neither be working for nor advising the government.

Mr. FRANCIS: I never said that.

The CHAIRMAN: You might ask your questions, Mr. Graftey, and then we will have discussion.

Mr. GRAFFTEY: We all have had experience with regard to the Unemployment Insurance Commission where the officers there will advise claimants for claims concerning their rights. We all have seen a conflict of interest there. I just bring this in as an analogy. At the same time I thank Mr. Henderson for bringing this problem before us. He is seeking independent legal advice from legal advisers who are employed neither by the Department of Justice nor any other department. This should be very obvious to us. As members of parliament receiving this information from our agent, namely the Auditor General, I think it is our duty right now to make sure that this problem is rectified.

I would like to ask Mr. Henderson whether this problem would be rectified if there were a vote of funds substantial enough to enable him to seek independent legal advice from sources outside the government on the many problems in respect of which he has to consult. I think it is as obvious as that.

The CHAIRMAN: Mr. Fisher.

Mr. FISHER: Not having heard what Mr. Driedger had to say, it is presumptuous of me to make any comment. It seems to me that Mr. Wahn is pretty close to putting his finger on something. We are at the stage of the whole question of tension, if you like, or the pull between the government in its administrative sense, and parliament in its scrutinizing sense. I would like to suggest that we certainly can see a great deal of change in the last five years in the scope of the work of this committee, and the work of the Auditor General. Obviously, he has been putting on muscle, as has this committee.

Mr. Wahn commented that he noticed a certain defensiveness. I also have noticed that defensiveness, and I have been glad to see it. It seems to me we may be touching on one of the most fundamental points of parliamentary government here; that is, the relationship of the executive to parliament. We may be touching on one of the directions that I, personally, believe parliament has to go; that is, it has to take upon itself, through committees such as this, greater powers in order to work as a real scrutinizer of the executive procedures and the administrative principles of the executive.

In this rather small matter of legal counsel for the Auditor General's department, it seems to me we are taking one more step along the road to give parliament, the House of Commons, or its microcosm—this committee—the kind of ability which will enable it to do a better job. I think all of us should look to see whether it is not coming pretty close to being a fact that this committee and the Auditor General, as an arm of the House of Commons, is about to move into an area where it will be continually, by its very nature, in a position of tension, putting government agencies on the defensive, and, if necessary, putting government ministers on the defensive. It seems to me this raises something which is very fundamental concerning cabinet government and ministerial responsibility.

My argument is that the committee should move on and that the committee and the Auditor General should be encouraged to move on in this particular direction, because I think it is the only way we can balance the situation where it has been more and more difficult for the committee to be a real watchdog. I am trying to set out what I think is a developing change in our system of government, and I would like to establish that in theory this is an admirable change. When the Commons gives its agency something to do, it is beginning to give it the power to do it and do it well. I do not know whether or not anyone has put this situation in this kind of context, but this is the way I see it. I would welcome a comment from the Auditor General. I know this has been put rather vaguely, but the way I see the development I see something like this necessarily taking place.

The CHAIRMAN: Thank you, Mr. Fisher.

Mr. HENDERSON: Mr. Fisher, I think you have chosen your words well, and I much appreciate the concept you have put forward because I have been carrying out my job in the way that I feel it should be carried out and in the way I feel you would want me to carry it out. My officers and I have sought to bring just as enlightened an approach to our work as is possible.

It is very helpful indeed to have discussions such as this. So far as the legal view is concerned, and the matter we are discussing, I think Mr. Driedger has stated his case very clearly. I told you I was in agreement with the position in which he had found himself.

With reference to what Mr. Wahn said. I might mention here that at the present time while we do ask Mr. Driedger for clarification and for interpretation on routine matters, actually I have withheld asking him for any direct opinions now for some little time. I have several cases in abeyance, and I do not know quite where to direct them, because he feels he no longer should

continue to give me formal opinions for the reasons he has cited. I do not know where I should go, but I do know that wherever I do go to obtain my formal legal opinions in the future, it must be to somebody who is wholly and completely acceptable to parliament. That, if I may say so, is the basic question.

Mr. FRANCIS: Would the Auditor General consider going to the parliamentary counsel for an opinion under such circumstances?

Mr. HENDERSON: I am in the hands of the committee on that, Mr. Chairman. I merely want to check my findings with competent legal counsel.

The CHAIRMAN: I think I broke in on Mr. Fisher. I am sorry, Mr. Fisher, if you have some further questions.

Mr. FISHER: I would just like to ask a very general question of the Auditor General. This is perhaps an embarrassing question, but in respect of this question of defensiveness raised by Mr. Wahn have you noted this kind of defensiveness on the part of government agencies which you examined and report?

Mr. HENDERSON: I would not describe it as defensiveness.

The CHAIRMAN: Would you like to consult counsel first, before answering, Mr. Henderson?

Mr. HENDERSON: I certainly have noticed a great deal of alertness. One of the things to which I always feel considerable attention must be given, particularly by auditors, is to the old fashioned business of seeking to get on with people. I think the importance of getting on with people in my work here is even more important, because you do not get very far with your auditing work if the people who are subjected to the auditing are not co-operative in terms of explaining the full facts surrounding their operations and answering all your questions. Uniformly throughout the civil service I have been pleased with the willingness to co-operate and work with us. My officers and I value very highly their contribution to our work. It makes our work easier, we can accomplish more and such differences of opinion as we may have are honest differences of opinion with the facts laid out on the table. It is only natural, therefore that when they appear before this committee they have, shall we say, done their homework more clearly; they know in advance the points we are going to bring up and that I think, as you have so aptly put it; has contributed to much better discussion and much better reports by this committee to the house. At least I would like to think so, and I believe that is what you think.

Mr. FISHER: In his statement did Mr. Driedger go into the question of ministerial responsibility as it relates to this committee and the Auditor General?

The CHAIRMAN: Mr. Driedger dealt generally with the provisions of the Department of Justice Act under which his minister and himself work. I will let him answer.

Mr. DRIEDGER: I would say that the Minister of Justice is the official legal adviser to the Governor General and in his capacity as attorney general of Canada he is required to give advice on legal matters to the government departments. Normally that function is exercised through his deputy minister, although there are occasions obviously when it is more appropriate for the deputy minister to tender his views to his own minister.

Mr. FISHER: Do you see any danger between the responsibility of the Minister of Justice and the Auditor General having a completely free hand subject to his relationship with this committee in getting legal counsel?

Mr. DRIEDGER: I see no objection to that, no.

The CHAIRMAN: Mr. Francis, was your question answered?

Mr. FRANCIS: I wondered whether Mr. Henderson could go to the legal adviser to parliament?

Mr. DRIEDGER: He, of course, is on the staff of parliament; he is an employee of the House of Commons and his duties I think are decided by the standing orders. Therefore, I would think that would be a matter for parliament.

Mr. CAMERON (*High Park*): What do you think about the advisability of this?

Mr. DRIEDGER: I do not think I should make any comment.

Mr. SOUTHAM: Mr. Ollivier is responsible to parliament as are his law officers. Could we make the recommendation that Mr. Ollivier or an assistant assigned to his office be appointed for this purpose so that Mr. Henderson would have recourse to these law officers. This is a natural area of liaison which we could recommend to parliament.

The CHAIRMAN: This is one of the various alternatives. Others have been made and the committee can discuss these.

Mr. FISHER: Several years ago a controversy developed involving the C.B.C. and the role of Mr. Dunsmore. I am not thinking of personnel, but in this instance this was brought up by the Auditor General and there were legal opinions obtained. As I understand it, the C.B.C. obtained a legal opinion from outside the Department of Justice for almost parallel reasons. It sat on its legal opinion; at least, so far as I know, it did not advance it to parliament. Like the Auditor General, the C.B.C. is an agency that does not report to a minister; it reports through a minister to parliament. I would like to suggest to the committee that here is an example of a government agency, reporting to parliament and not to the minister, outside the Department of Justice. The interesting thing is that as I understand it the advice was contrary to the advice which apparently the government had from the Department of Justice.

Mr. HENDERSON: This happened in the case of the Canada Council which we were discussing earlier.

The CHAIRMAN: When the Supreme Court of Canada divides on the basis of five to four, there is ample room for lesser members of the bar to split on questions of opinion.

Gentlemen, we have had a very good discussion on this and I am sure we are most appreciative. As Mr. Fisher said, and as pointed out by all the members, this is very important with reference to what is involved here. I think it will be very useful to us when we come to the point of making our report and recommendations. We appreciate Mr. Driedger appearing here. Thank you very much for your attendance here. I am sure that what you have had to say will help us very much in the decision which we reach.

Mr. CAMERON (*High Park*): Before you leave that, Mr. Henderson might give us what in his opinion is a solution of the problem.

Mr. HENDERSON: In a very few words I can answer Mr. Cameron simply by saying, as Mr. Driedger says that this has been a subject of discussion between us and it is you chairman who has raised the matter before Mr. Driedger and I have found a solution.

Mr. CAMERON (*High Park*): Perhaps you could think about a solution.

Mr. HENDERSON: I am doing that, sir.

The CHAIRMAN: Gentlemen, we will have the benefit of Mr. Henderson's views before we write a report, which will deal with this particular matter.

Now, gentlemen, we stood Mr. Armstrong up last week when members were absent on other duties. We could not find a quorum for Mr. Armstrong. We have eight or nine items still and it is obvious we will have to come back this afternoon.

Is it your wish to carry on now for a while with Mr. Armstrong and then come back this afternoon? What are your views in this respect? I think Mr. Armstrong is entitled to consideration from us because he came last week and stood around for the afternoon while we were unable to find enough members to question him.

Mr. CAMERON (*High Park*): I would suggest that we carry on until 12 o'clock.

The CHAIRMAN: Yes, we will do that and then adjourn until 3.30 this afternoon.

Now, Mr. Henderson, the next item I think you have is paragraph 79.

Mr. HENDERSON: Mr. Chairman, we are still on the 1962 report and are dealing now with paragraph 79 at page 31, benefit paid under the Canadian Forces Superannuation Act to a "divorced" wife.

The paragraph outlines the circumstances under which an air force officer died of natural causes while serving in the United States, and shortly before his death his wife had obtained a divorce in that country and had remarried. But, the divorce was not recognized as legal in Canada and the woman, as the widow of the deceased officer, was paid a cash termination allowance of \$3,428 and, in addition, the supplementary death benefit of \$5,000.

From a legal point of view, these payments are not questioned but they appear to be unrealistic in that they were made to a person who was no longer, in the accepted sense, the wife of the serviceman at the time of his death.

The Canadian Force Superannuation Act only permits executive discretion in withholding an award from a widow if it appears that for a number of years immediately prior to the serviceman's death she had been living apart from him. And, I go on to suggest that the Department of National Defence might give consideration to amending the act to provide for the enlargement of the executive discretion to deal with unusual cases such as that referred to here.

I believe the department has had this matter under advisement and perhaps Mr. Armstrong would care to comment upon it at this time.

Mr. ARMSTRONG: Mr. Chairman, we have had this under consideration and, quite frankly, at this point we have not come to any conclusion in respect of how this matter should be dealt with. Under the law, this woman, in fact, was the legal widow and one would have to provide, if she were not to receive the benefit, for some discretionary power in the executive to disentitle her in these particular circumstances. In point of fact, if the committee is interested in this particular case, this woman, in fact, was named as a beneficiary under the will of the man himself, and she would have received the supplementary death benefit in any case because it is paid into his estate and would have been paid to her. However, that just happens in this case; there would be from time to time other cases where, owing to a divorce in the United States or under some other jurisdiction which is not recognized in Canada, a woman would be the legal widow and entitled to a benefit even though she was divorced and perhaps remarried in some cases.

The CHAIRMAN: I have Mr. Southam, followed by Mr. Ryan.

Mr. SOUTHAM: As a matter of information I was wondering how many cases you normally would have of situations such as this or similar cases during the period of a year? Would there be very many such cases or is this the exception?

Mr. ARMSTRONG: Well, I think you certainly would have to say it is the exception. The Judge Advocate General is present and perhaps he could give you an idea of how many such cases would happen in a year.

Brigadier W. J. LAWSON (*Judge Advocate General of the Canadian Forces*): Mr. Chairman, I cannot recall any other cases of this particular nature.

Mr. SOUTHAM: The paragraph goes on to state that the act only permits executive discretion in withholding an award from a widow if it appears that for a number of years immediately prior to the serviceman's death she had been living apart from him. Is there an argument here in respect of whether or not the executive has used the proper discretion or do you suggest that these powers are too tight and there should be an amendment to the act? Would the Auditor General like to suggest what the solution to this would be.

Mr. ARMSTRONG: I do not think we had any executive discretion in this case; we had to pay this.

Mr. SOUTHAM: It was a matter of the legal interpretation of the law as it stands now.

Mr. ARMSTRONG: Yes.

Mr. SOUTHAM: In light of the evidence which has been given this morning, it would seem rather unusual that where a person actually was divorced and married another man she should come under these benefits. But, you say this is the interpretation of the law as it now stands.

What would be Mr. Henderson's view in respect of consideration being given to the amendment of the act to provide for enlargement of these powers?

Mr. HENDERSON: The point I would like to put forward is that if the act in its present form permits this type of settlement perhaps the executive should be given a wider discretion and be allowed to apply its own judgment.

Mr. SOUTHAM: Would the enlargement of the executive's discretion here result in any other problems such as, for instance, bringing too many cases under their supervision and the coming forward of other matters which might be questionable.

Mr. HENDERSON: We think so because the only executive discretion the act permits is "if it appears for a number of years immediately prior to the serviceman's death she had been living apart from him". In this case he had only been in the service for five years and his wife obtained a divorce only shortly before his death so, presumably, they felt they could not exercise executive discretion in that case.

Mr. ARMSTRONG: In this case the wife obtained a divorce in the United States on July 29, 1960 and the man, in fact, died on August 21, 1960. There was no evidence that he and his wife had been separated or living apart, as required in the law, for a number of years. In fact, the evidence indicated that they had been apart only something less than two months up to this time, and under the circumstances the discretion that does exist in the law which refers to separation for a number of years did not apply.

Mr. SOUTHAM: My aim, of course, is to try and help our Auditor General in this respect so that the committee will be satisfied that he is doing his job.

Mr. HENDERSON: Would it not appear to you, Mr. Southam, that the executive in its wisdom, should have had discretion to have cancelled out this particular settlement?

Mr. SOUTHAM: I think so, I think this is a situation we would not want to have repeated too often or, even, again. If it does not appear right in the legal sense, and it does not appear right to me, I think there should be some amendment to the act along those lines.

Mr. HENDERSON: That is my point.

The CHAIRMAN: Would you proceed, Mr. Ryan.

Mr. RYAN: I am addressing my question to Mr. Armstrong and to Mr. Henderson. In your opinion, would it not be better to amend the act rather than increase the discretionary powers? As I say would it not be better to amend the act by providing where a wife is living apart from her husband under such circumstances as to disentitle her to alimony or maintenance, then she cannot take it under such circumstances. The case in hand, apart from the additional factor, that the will would have given her this in any event by way of the estate, one which should disentitle her to alimony even though she did live apart for only two months. If this were a maintenance case she would have been disallowed in that respect.

The CHAIRMAN: Before leaving this matter, could we have the regulation read in this respect. I do not believe it is very lengthy.

Mr. ARMSTRONG: No.

The CHAIRMAN: Would you read it to us so that it will be on the record, should we want to consider the question of any amendment. In this way we will know precisely what the regulation is at the present time.

Mr. RYAN: There might be a problem in respect of the laws as they pertain in the province of Quebec. I am unable to speak in that respect and perhaps we should have some advice in respect of the civil law as it pertains there.

Mr. ARMSTRONG: This is the regulation as it stands at the present time:

If, upon the death of a contributor, it appears to the treasury board that the widow of the contributor had, for a number of years immediately prior to his death, been living apart from him under circumstances that would have disentitled her to an order for separate maintenance under the laws of the province in which the contributor was ordinarily resident, and if the treasury board so directs, having regard to the surrounding circumstances, including the welfare of any children involved, she shall be deemed, for the purposes of this act, to have pre-deceased the contributor.

Now, to get the discretion that would deal with this case we would have to have removed from this act the words "a number of years".

The CHAIRMAN: Yes, there would have to be removed the words "a number of years".

Could we move on, gentlemen?

Mr. CAMERON (*High Park*): You said that she might take it under the will. Does she not take it as the widow?

Mr. ARMSTRONG: I was speaking of the supplementary benefit, which was the major benefit. It is payable to the estate if he does not have a widow.

Mr. CAMERON (*High Park*): But, it is payable to the widow.

Mr. ARMSTRONG: It is payable to the widow but if there is not a widow it is payable to the estate. She was the beneficiary in this case so she would have received the \$5,000 under the estate.

Mr. CAMERON (*High Park*): I am speaking of the cash termination allowance.

Mr. ARMSTRONG: There would be a difference in this. The cash termination allowance is payable to a widow. If there was no widow the estate would receive a return of the contribution.

Mr. CAMERON (*High Park*): Assume there was a widow; the deceased could not will it away from the widow?

Mr. ARMSTRONG: No.

The CHAIRMAN: Gentlemen, it is five minutes to twelve. We have had a very good meeting this morning and I suggest we adjourn until 3.30 this afternoon, unless the orders of the day are much longer than they should be.

AFTERNOON SITTING

Tuesday, July 14, 1964.

The VICE-CHAIRMAN: Gentlemen, we have a quorum. I would as the meeting to come to order.

Mr. Armstrong now has answers to some of the questions which were put to him this morning. I will invite him to give those answers to the committee now.

Mr. ARMSTRONG: There were two questions on item 78 that I was unable to answer this morning. One was the name of the firm that made the site survey. The firm was C. A. Fowler Limited in Halifax. I would just add that the site survey that was used for that contract was the one that was made in May of 1956 for the original installation.

The second question was whether or not we could, had we known what would be the ultimate cost of the renovation, have chosen another site. Another site, of course, might be possible, but we already had an investment in this site in excess of a quarter of a million dollars and it would not have paid us to move even had we known at the outset that the cost of this renovation would come up to the actual figure. Therefore, the answer to your question is that we would not have moved in any case because of our original investment in that site.

The VICE-CHAIRMAN: Mr. Winch.

Mr. WINCH: Mr. Chairman, I think we have considered this for long enough but I would like to ask, through you, if Mr. Armstrong would be prepared at a later date to submit a report to this committee on the engineering procedures involved in the construction.

The VICE-CHAIRMAN: Very good.

Mr. WINCH: Will Mr. Armstrong do that?

Mr. ARMSTRONG: I will be very glad to do it. I would appreciate it if at some point the committee, perhaps through their steering committee or otherwise, would give me more specific information of exactly what they would like. Engineering procedures cover a very wide field in the Department of National Defence.

Mr. WINCH: I am mostly concerned, Mr. Chairman, with the matter I raised this morning, which was a general survey of engineering, not specifically on each point of construction.

Mr. ARMSTRONG: Yes, I think I understand what you want.

Mr. WINCH: Would you be prepared to give us such a report?

Mr. ARMSTRONG: I would be quite happy to submit a paper to the committee explaining our procedures.

The VICE-CHAIRMAN: I would like to take a moment off to welcome to the committee Mr. Legault of Nipissing and Mr. Leblanc, member for Montreal Laurier, who have been added to the committee. I am sure they will make a great contribution to the work being done by this committee.

Some hon. MEMBERS: Hear, hear.

Mr. Henderson has some comments to make on paragraphs 81 and 82 of the 1962 report, and I will ask him to do that now.

Mr. HENDERSON: Paragraph 81 outlines the financial assistance to the town of Oromocto. We did have a brief discussion of this on June 9, at which time I explained how attention was drawn to the loans and the level of the town's operating cost which, as you can see, in 1961 totalled \$1,602,000 while its revenues only amounted to \$81,000, including tax revenues of \$27,000 and provincial government grants and subsidies of \$9,000. I pointed out that there seems very little likelihood of the town being able to operate normally in the foreseeable future.

The Department of National Defence alone owns 1,900 housing units in the town, which represents about 90 per cent of the value of all the town property.

Dr. McMillan and Mr. Harkness spoke to this subject, you will recall, but it was left over until we had Mr. Armstrong with us today. I do not know what is the outlook for the recovery of some of these advances but, as I indicated, it does not seem very bright.

The VICE-CHAIRMAN: Have you finished with that clause, Mr. Henderson?

Mr. HENDERSON: Yes.

The VICE-CHAIRMAN: I wonder whether Mr. Armstrong has some comment to make on paragraph 81 for the enlightenment of the committee.

Mr. ARMSTRONG: This, Mr. Chairman, is a rather complicated subject. I realize the committee perhaps do not want lengthy statements on this, so I would first of all agree with the Auditor General that the town of Oromocto is predominantly dependant on the Department on National Defence. While there is some private investment there which is increasing gradually as the years go by, it would seem self-evident, I think, that it is going to be predominantly a national defence town for a good many years to come. It now has a population of, I think, about 12,000 to 13,000 and it is largely dependant upon revenue from the department.

The VICE-CHAIRMAN: Mr. Francis.

Mr. FRANCIS: Mr. Chairman, I notice that grants by the province for municipal purposes appear to be in the order of \$9,000. That appears to be very low. Is there any reason why the province has not undertaken a more usual type of municipal grants program in these circumstances?

Mr. ARMSTRONG: The province, I think, makes the standard municipal grants and they are subject to a couple of factors which result in their being low. They have not seen fit to provide a portion of a grant that is normally paid to municipalities, that is based on these special grants from the federal government in respect of the Atlantic area. That results in the grant being somewhat lower than a normal municipality would receive.

I believe there are some other factors in terms of population which have an effect on this. For example, in terms of population, the census had not been brought up to date and we have grown very rapidly in the last four or five years, and this has resulted in grants being a little lower, too.

Mr. FRANCIS: I wonder whether the fact that the crown owns so many of the dwellings has something to do with it. This would perhaps influence the private assessment. I wonder whether the department has considered the policy of sale of some of those dwellings or a proportion of them to private persons with the object of increasing the amount of assessment which would not be government of Canada assessment.

Mr. ARMSTRONG: There are about 1,900 units there which are crown owned, and the question of sale is a question of market. These houses are occupied by individual servicemen who are there for three or four years and then move out again.

Mr. FRANCIS: Surely, Mr. Chairman, there must also be a local service trade and so on in the community which would provide the facilities and services which the community needs on a continuous basis.

Mr. ARMSTRONG: There are also privately owned homes for those people, but we do need 1,900 units; and, in fact, we are building more now to accommodate service people.

Mr. WINCH: May I ask a question of Mr. Armstrong?

I had the privilege last week of being in Gagetown and, therefore, in Oromocto, Oromocto is a town outside Gagetown. It is dependent entirely upon the army station, who will be there for all time, I presume, and who are doing a wonderful job, if I may say so, Mr. Armstrong—a wonderful job. The information which I discovered last week is that at Oromocto there is a council to which some members are appointed by the provincial government and some by the federal. As it is a town outside the federal establishment itself, could you tell me why in its administration the taxes are not sufficient to cover the general administration and, therefore, why we have to spend these additional sums every year?

Mr. ARMSTRONG: The boundaries of the town of Oromocto encompass, as you recall, that camp area.

Mr. WINCH: The boundaries surely do not encompass Camp Gagetown?

Mr. ARMSTRONG: Yes, Camp Gagetown is within the municipal boundaries of Oromocto, and the housing area occupied by military men and their families is within the municipality of Oromocto, so that Camp Gagetown is encompassed by that municipality, established by special legislation of the province of New Brunswick and controlled by a board of commissioners made up of seven, four of whom are appointed by the governor in council here and three by the province. All of that area is part of that municipality and within that town boundary.

Mr. WINCH: Mr. Chairman, the point I am trying to make is this. In view of the fact moneys are paid in respect of Camp Gagetown in lieu of taxes, and in view of the fact that the federal government has paid for the construction there including sewers and lights and water facilities, why is Oromocto not a self-sustaining town? I understand there is a great deal of private and surplus housing in the area.

Mr. ARMSTRONG: Perhaps I could explain the situation in this way. As you know, there are seven schools in existence there, the cost of which is part of this budget. In fact, half of the budget of the town of Oromocto is represented by the cost of operating these schools.

Mr. WINCH: I realize that fact.

Mr. ARMSTRONG: This represents a good part of the total budget. Our children occupy virtually all of the schools and represent almost the total school population. All the streets you saw throughout the housing area are being maintained by the town of Oromocto. All the attendant services provided represent part of the total budget. If these costs were not paid by the town of Oromocto as part of the town costs we would, at any rate, have to pay that portion, associated with the operation of our establishment. We would have to pay the cost of operating the schools for our children.

Have I answered your question?

Mr. WINCH: You have answered it only in part. I made a visit to this area and found it very interesting. How do you answer the criticism of the Auditor General as contained in paragraph 81?

Mr. ARMSTRONG: As I understand the situation, the Auditor General's comments here point out to the members of this committee that at this stage after roughly seven or eight years of operation the town is still predominately

operated by national defence and there has not been sufficient build-up in the civilian community to even represent a small segment proportion of the cost of operating the town. This is the fact and there is no question about it. As I say, I do not see any likelihood of this changing for a good many years, and under these circumstances the town will be dependant to a very large extent on federal government sources of money, particularly from the Department of National Defence.

Mr. WINCH: Mr. Chairman, obviously I have not made my question clear. I understand the houses in the town of Oromocto are either rented or purchased. I should like to know why, whether the houses are owned by the Department of National Defence or by private individuals, the town has to be supported by general government subsidy?

Mr. ARMSTRONG: The houses are owned by the Department of National Defence and are occupied by our people as married quarters. The number occupied by these individuals represents the greatest number of houses in the area. These houses are not subject to tax.

Mr. HENDERSON: There is no taxation in this regard, Mr. Winch.

Mr. WINCH: Are you suggesting the houses in Oromocto are not taxed?

Mr. ARMSTRONG: Those houses owned by the Department of National Defence are not subject to taxation. Privately owned houses are being taxed.

Mr. HENDERSON: I think Mr. Harkness made this point, Mr. Winch, in a statement to the committee at the last meeting. He pointed out that even the shopping centre which is the chief business end of the town, is owned by a crown corporation, but the title to it is under the Department of National Defence. He then went on to say:

Therefore you have nothing to tax in the normal sense except this very small amount of privately owned property. And this grant which has been made was made as being the equivalent to what would be granted, let us say, to the city of Ottawa or to any other city where DND property exists, in lieu of taxes.

As you will see in the note here, in 1955, when this proposition had its origin, the Department of National Defence proceeded, with government approval, to develop the proposed town and in due course it was incorporated by an act of the province of New Brunswick.

Mr. WINCH: Will you tell me why, whether applied to housing or anything else, rent does not include an amount of money to cover required taxes?

Mr. HENDERSON: I presume that the government has taken the position, and I would ask Mr. Armstrong to correct me in this regard if I am wrong, that in view of the substantial amount of help being given, there was no necessity for them to make any grant in lieu of taxes. Is that correct?

Mr. WINCH: Perhaps I could ask Mr. Armstrong why, if my understanding is correct, the rents in respect of stores or houses owned by the department have not been designed to include anything in the way of taxes, but which in turn are being paid by the Department of National Defence?

Mr. ARMSTRONG: We pay the difference between the operating costs of the town and its revenue received from either private taxes, grants from the provincial government or any other source. The Department of National Defence in fact makes up the difference. Municipal grants or grants in lieu of taxes are not paid in that particular area. There was a belief originally that the town might develop after four or five years, to a point where grants in lieu of taxes would be paid. However, as the town is still dependant on the Department of National Defence to the extent of something in the neighbourhood of 90 per cent, the circumstances were not really propitious for

paying grants in lieu of taxes. There is such a relatively small tax base in respect of the private sector that consequently the Department of National Defence continued to operate on the basis of direct grants. As a result of the fact that the federal government appoints four of the seven commissioners it does have representation and an opportunity of making an impact on the town budget, keeping control over the over-all expenditures.

Mr. WINCH: Perhaps I could ask one final question, Mr. Chairman.

The VICE CHAIRMAN: Yes.

Mr. WINCH: I should like to ask Mr. Armstrong, as a result of the information he has just given, why in a town such as Oromocto, or for that matter anywhere else, the Department of National Defence should allow a rental basis to exist in respect of commercial operations involving an amount less than that which would cover the cost of included taxes.

Mr. ARMSTRONG: I am not sure I understand your question, but we are not doing that. We are not allowing a rental basis in so far as housing is concerned which we own and, if you wish to phrase it this way, we rent. Servicemen and their families occupy the housing we own on the basis of standard married quarters in respect of which there are certain allowances not paid when those individuals occupy housing of this type.

Mr. WINCH: In respect of commercially occupied and Department of National Defence owned property in Oromocto, do you charge rent on a commercial tax basis?

Mr. ARMSTRONG: We are not engaged in a commercial operation.

Mr. WINCH: There are some properties of that type in existence.

Mr. ARMSTRONG: Yes, but not in operation by the Department of National Defence. Those are represented by private operations.

The VICE CHAIRMAN: If I may be permitted, I think what Mr. Winch is trying to understand is, in the case of property rented for commercial operations by people other than the national defence department, do you include in your rental charges an amount which would normally cover the cost of taxation if normal taxes were charged. Is that the information you require, Mr. Winch?

Mr. WINCH: Yes.

Mr. ARMSTRONG: That situation does not exist, but if we did rent property on the basis of a commercial operation we certainly would include taxes in the rental charges.

The VICE-CHAIRMAN: I have Mr. Wahn next on my list of questioners followed by Mr. Fane, Mr. Regan, Mr. Ryan and then Mr. Cardiff.

Mr. RYAN: In order to clarify something you said in answer to a question asked by Mr. Winch, did I understand the Auditor General to say that the Department of National Defence does in fact own the property which is being operated as a shopping centre?

Mr. ARMSTRONG: We do not own that property.

Mr. HENDERSON: A crown corporation owns that property, according to Mr. Harkness, although I am not certain which crown corporation it is.

Mr. ARMSTRONG: It is not actually a crown corporation which owns that property. There is a corporation known as the Oromocto Development Corporation which owns the property.

Mr. WINCH: I think Mr. Ryan's question is of utmost importance, because if this is a crown corporation it represents the government of Canada.

Mr. ARMSTRONG: If I might say so, it is not really the government of Canada, although the financing, in fact, really has come out of the government of Canada in that it made available through appropriation moneys that could

be provided through the commission to the Oromocto Development Corporation for developing the town. That corporation, in fact, did build the shopping centre. They run the buildings there. I do believe they are prepared to sell them, although I do not think anything has been sold up until now. They also run some other operations. I believe they have a housing development and, perhaps, some other things.

Mr. WAHN: Who owns the development corporation?

Mr. ARMSTRONG: I believe that is established under the companies act of the province and really is an emanation of the town of Oromocto.

Mr. WAHN: I gather from the figures given here that the operating costs are running at about \$1,600,000 a year. Would you recover this amount through the rents which you charge directly or indirectly to the tenants of the 1,900 housing units? If not, to what extent do you recover through rents?

Mr. ARMSTRONG: We would recover not nearly this amount. Our average rent on housing, in round figures, would run perhaps approximately \$90 a month, somewhere between \$90 and \$100 on the average. Now, if one calculates the investment in the houses, the depreciation, the cost of operation and so on we certainly would not begin to pay this kind of cost if we attached it to the housing.

Mr. WAHN: Then these really are highly subsidized houses?

Mr. ARMSTRONG: Oh, yes. But, I would suggest that you normally would not expect these housing units to bear the full cost of operating.

Mr. WAHN: Has any comparison ever been made by the department in respect of the cost per person of providing housing in this way as compared with the cost per military person in providing housing in other areas of Canada? It seems to me this has been started as a rather interesting experiment which obviously has cost considerably more than anticipated, and there is no indication it will cease costing a considerable amount of money. Has the department learned anything from this particular experiment?

Mr. ARMSTRONG: I believe there have been comparisons made but I do not recall exactly what they produced. However, I do not think there is any question but what you say is so, that this is more expensive than a normal military station development at this stage. Possibly at sometime in the future, if the town develops sufficiently and you have a real civilian base there, it would not be more expensive; it might even be a little cheaper. But, I think that would be a long time in the future.

Mr. WAHN: Is there any continuing study under way to see if something could be done to stop this indefinite drain on public funds?

Mr. ARMSTRONG: When you say a continuing study I might say that we do look at this. We obviously look at it on a continuous basis. We have to look at the budget every year. We are aware of the fact that it is expensive and we are doing our very best to keep the costs down. We have had some success in reducing them in a marginal way. But, I do not think we will reduce them in any really substantial way. We are concerned basically with schooling and funds for services.

Mr. WAHN: You mentioned that the rental of units was in the amount of about \$90 a month. Would that be a six room house?

Mr. ARMSTRONG: I said I thought they would average that. The units vary a little bit and the rentals or the recoveries we get for them depend on the soldier's rank who occupies them. But, they would run from about a minimum of \$80 odd a month up to something in the order of \$120 a month.

Mr. WAHN: Would it be a detached house for that amount?

Mr. ARMSTRONG: They nearly all are detached houses. Some are row housing. But, for the most part, in the original development they were detached houses.

Mr. WAHN: Six rooms?

Mr. ARMSTRONG: Yes, predominantly three bedrooms. However, they are not all three bedrooms; there are some with two, some with three and some with four. But, as I say, predominantly they are three.

Mr. WAHN: Well then, there is a considerable rental subsidy involved in respect of the personnel who occupy these houses. Are similar subsidies given to other personnel in other camps throughout Canada?

Mr. ARMSTRONG: There is really a rental subsidy on all our housing for the soldiers—that is, the soldier, the private, the corporal and the sergeant. In respect of the people who have a deduction of, say, \$80 to \$90 a month, there is not any question that the housing amortized over a reasonable period of time, perhaps 30 years, would cost us more than we get back. I think this applies to all our houses. Now, in respect of those who pay \$115 or \$120 a month, that amount perhaps would cover the cost. But certainly with the more lowly paid staff, the junior N.C.O.'s and so on, I do not think there is any question that there is a subsidy involved.

Mr. WAHN: Would those men of similar rank who are responsible for finding their own quarters in other locations receive a similar subsidy to equalize it.

Mr. ARMSTRONG: The way I am judging it, a man receives a certain amount of pay and allowances and if he is living out he has to find his own accommodation; if he is living in married quarters he gets so much less, and the amount less that he gets is what I am speaking of in terms of \$80 rent. If he is living out we do not subsidize him. He provides the accommodation out of his own pay; he pays for it.

The VICE-CHAIRMAN: Would you proceed, Mr. Fane.

Mr. FANE: Well, Mr. Chairman, Mr. Winch and Mr. Wahn have covered many of the questions I was going to put. However, Mr. Armstrong, we did establish that the shopping centre and the apartment block are owned by a corporation which is not a crown corporation and, therefore, it is not owned by the government. We did establish that, did we not?

Mr. ARMSTRONG: Well, that is right. It is not a crown corporation and it is not owned by the government, although actually the money that really went into it came from the government.

Mr. FANE: I see. Does the rental charged for that include enough money to pay taxes on those establishments?

Mr. ARMSTRONG: Yes. There are taxes paid on those establishments.

Mr. FANE: There are?

Mr. ARMSTRONG: Yes.

Mr. FANE: Then, that is not subsidized so much.

Mr. ARMSTRONG: Well, it all depends on how you use the word "subsidy". At any rate, they do pay taxes.

Mr. WINCH: I think you should answer this question. I believe there are subsidies because you do not charge commercial enterprises sufficient rent to carry that. Is that not so?

Mr. ARMSTRONG: The answer to that is that I believe they do include enough in the rental to amortize their capital costs and to pay their taxes. But I do not know the operation of the Oromocto Development Corporation in detail. However, I think I am quite correct in saying what I have said.

The VICE-CHAIRMAN: Mr. Regan, you are next.

Mr. REGAN: Mr. Armstrong, I have several questions arising largely out of earlier questions.

First of all, in comparing the camp at Gagetown and, therefore, the existence of Oromocto, to conditions elsewhere in the country I think you will agree that we have to face a very fundamental difference. At Oromocto we are faced with the necessity—and I believe this was the primary purpose—of considering the comfort, morale and services of our own armed forces and, therefore, we were faced with creating an entirely new town. You were faced there with a different situation from most camps. Is that an accurate statement, to begin with?

Mr. ARMSTRONG: Well, I think it is in a sense accurate. We certainly had a new camp from scratch, and we had to build that.

Mr. REGAN: And, a new town.

Mr. ARMSTRONG: On the question of building a new town, obviously when you build a camp of that size you must provide facilities of some kind such as normally are found in a town unless those facilities are available in an adjacent municipality.

Mr. REGAN: As I understand it, the corporation which owns the shopping centre is owned by the town of Oromocto; it is not owned by a group of private individuals who eventually will make a profit.

Mr. ARMSTRONG: That is accurate.

Mr. REGAN: So, it is not a question of someone profiteering. As I understand it, when the town was founded and the camp established it was not sufficiently attractive to private individuals to establish the necessary type of shopping centre that was needed by the men in the area; it was not attractive enough to private individuals, and therefore for the general benefit of members of the armed forces, it was necessary to have this type of commercial establishment or physical building for commercial establishments erected and rented out to individuals. Is that correct?

Mr. ARMSTRONG: I think substantially that is correct. Private enterprise was not prepared to go in and build them on their own.

Mr. REGAN: Starting with the same 1,900 units of private houses owned by the government, I think the experiment in that direction is a very worth-while one. In many other areas you have allowed private interests to build apartment houses or houses for the armed forces personnel on the basis that they were given an approximate guaranteed profit. Do you weel the experiment at Oromocto in retaining government ownership of those houses is a good one.

Mr. ARMSTRONG: Yes. I think definitely we should retain government ownership of the housing.

Mr. WINCH: I am sorry; there are privately owned apartment houses in Oromocto?

Mr. REGAN: I am perfectly cognizant of that; but the government did not put up the money for those privately owned apartment houses, other than the way it is done anywhere else through the National Housing Act.

Mr. ARMSTRONG: That is correct; it is mortgage money. As I mentioned earlier, we need another 300 houses. They are going to be built there and we will build them as government owned houses. I think this answers the question that we consider this in the best way to build houses for the armed forces in that location.

Mr. REGAN: Generally, for the present and the future, the policy is where this type of ownership is required that it will be built and the ownership will be retained by the government rather than giving a guaranteed franchise to private individuals.

Mr. ARMSTRONG: I would not go that far: I think this depends in part on the location and the particular situation. If we are in an area where private enterprise is prepared to build houses on a rental basis, we will certainly consider that. As you know, we have a number of these.

Mr. REGAN: Yes. Now, as has been pointed out, in the town of Oromocto there is some privately owned land?

Mr. ARMSTRONG: Yes.

Mr. REGAN: You can buy land and build your own structure, if you so desire?

Mr. ARMSTRONG: Yes.

Mr. REGAN: Are there restrictions in respect of the type of industries which can be established in Oromocto?

Mr. ARMSTRONG: There probably are some, but I am afraid I do not have the information with respect to what the restrictions are. I know they are seeking industry there. I would think that if there are restrictions they would be very limited ones. However, no doubt there are zoning regulations in the town.

The VICE-CHAIRMAN: I would suggest, Mr. Regan, that you are getting away from the paragraph which we are discussing.

Mr. REGAN: Not at all. I am dealing with the situation that if industry could establish there the tax base would be much broader. It is very difficult for a town to operate if its taxes come entirely from residential taxation. I am tying this in. I understand that a certain type of industry likely would be able to establish there.

Mr. ARMSTRONG: Yes; there is private industry there.

Mr. REGAN: Is part of the reason it is necessary to continue to subsidize this town the fact that Oromocto would have difficulty in attracting private industry for a number of reasons: first, because almost all the residents are members of the armed forces, there is not a readily available labour force for private industry in the quantities which would exist in a normal town. Is that accurate?

Mr. ARMSTRONG: I am sure this has a bearing on the situation.

Mr. REGAN: So, the fact is, if this great camp is to exist, there is a need for a possible subsidy to keep this town operating on a break even basis for a considerable period. Is that correct?

Mr. ARMSTRONG: I do not think there is any question about that.

Mr. REGAN: If at the present time you were to pay taxes on all those 1,900 units owned by the government, or if the government were to pay a grant in lieu of municipal taxation in the same amount, this would not remedy the situation because the lack of industrial taxation revenue still would leave the town unable to break even. Is that accurate?

Mr. ARMSTRONG: Of course, this depends on the tax base.

The VICE-CHAIRMAN: I do not wish to stop you asking questions, Mr. Regan. I know you did not agree with me when I told you you were getting away from the clause we are discussing. I do not want to act as a brand new chairman sweeping everything clean; but you are making far more statements than you are asking questions. May I respectfully ask that you confine yourself to asking questions.

Mr. REGAN: I shall do so. Thank you Mr. Chairman. Mr. Armstrong, I think I have pretty well covered all I wanted to say, at any rate—or wanted to ask.

An hon. MEMBER: You were right the first time.

Mr. REGAN: At the present time you have a projected expansion of 300 units. Is it expected that this town will continue to grow, and that therefore the amount of the subsidy being paid at present will also grow somewhat?

Mr. ARMSTRONG: The town will grow somewhat on the military side. We are putting in those additional units and need some more houses there. Of course, the school population is growing. I think we have to build another school. All this adds to the cost. On the other hand, the civilian part of the town also is growing.

Mr. REGAN: The schools are operated at the cost of the town?

Mr. ARMSTRONG: Yes.

Mr. REGAN: You merely provide the school.

Mr. ARMSTRONG: In fact, the town provides the school. We provided some of the original ones and turned them over to the town.

Mr. REGAN: I would like to say that I feel this is a very worth-while experiment in public ownership and I am quite surprised to see Mr. Winch opposed to it.

Mr. WINCH: I am not, sir; I am not opposed to it. Last week I was there, and Oromocto itself is the most marvellously planned town I have seen anywhere in Canada.

The VICE-CHAIRMAN: That establishes the fact that you are not against it, and we appreciate that.

Mr. WINCH: No. I wanted to know the relationship of the federal government in paying its subsidies to the town of Oromocto.

The VICE-CHAIRMAN: If you will hold that for a moment, we will have Mr. Ryan and then Mr. Tardif.

Mr. WINCH: It is a wonderful town; I have seen it.

Mr. RYAN: Is the Municipal Grants Act which is referred to in this paragraph an act of the provincial government, or of the federal government?

Mr. ARMSTRONG: An act of the federal government.

Mr. HENDERSON: It was the federal government.

Mr. RYAN: At the time that this municipality was set up it appear to have been set up as a joint federal-provincial-municipal experiment. It seems at that time there were expectations of receiving a lot higher grants than have developed. Why would there be a letdown of these expectations that the original plan seemed to foresee?

Mr. ARMSTRONG: I do not believe there was expectation of higher grants. There was anticipation at the outset that after the first three or four years the town would in fact receive federal support through the Municipal Grants Act, but this has not happened, and the grants are paid directly through appropriations of the Department of National Defence.

Mr. RYAN: Are there not provincial grants paid as well?

Mr. ARMSTRONG: Oh, yes, there are provincial grants.

Mr. RYAN: According to the second paragraph of item 81 there were \$9,000 provincial grants in all; what would the federal grants be?

Mr. HENDERSON: They are listed in the table on page 33.

Mr. RYAN: Oh, yes. These are not paid under the Municipal Grants Act, are they?

Mr. HENDERSON: No, they are paid under the vote.

Mr. ARMSTRONG: I could give you a couple of figures to illustrate it. In 1956, which was the first year, the grants from the department were \$75,000.

They have gone up to \$1,736,000. The provincial subsidy in that first year was \$5,430; but it has now gone up to \$121,610. Then there are a few more provincial grants for other specific purposes which amount to about \$24,000.

Mr. RYAN: Would they be for education? Would it be included in these additional provincial grants of \$24,000?

Mr. ARMSTRONG: No, I doubt if it covers education. I think the total covers education.

Mr. RYAN: Is there anything received specifically from New Brunswick for education?

Mr. ARMSTRONG: Let me see if I can pick it out for you.

Mr. RYAN: We can get it later. Let me go on. You spoke of the fact that Camp Gagetown is entirely within the boundaries of Oromocto. May I take it from that, that at the time of the incorporation of this new municipality all the land within its boundaries was turned over from the municipality, and that there have been transfers effected since?

Mr. ARMSTRONG: Any land that departmental buildings are on has not been turned over; but all the land for roads, sewers and certain other land has been made available.

Mr. RYAN: Is the land which forms Camp Gagetown itself still owned by the crown in the right of Canada?

Mr. ARMSTRONG: Yes.

Mr. WINCH: It is not apart.

Mr. ARMSTRONG: Yes, it is within municipal boundaries.

Mr. WINCH: I would like to get this clear: that there is nothing on the ground of Camp Gagetown, such as officers' quarters, N.C.O.'s quarters and everything else which is not strictly military at Gagetown.

Mr. ARMSTRONG: Yes, I would agree with you.

Mr. RYAN: Why, then, have we had this situation brought before the committee in the case of Gagetown when we do not have anything similar in the case, let us say, of Camp Borden in Ontario?

The VICE-CHAIRMAN: Perhaps Mr. Henderson could answer that.

Mr. HENDERSON: I shall ask Mr. Millar to answer.

Mr. B. A. MILLAR (*Audit Director, Office of the Auditor General*): I think the answer to that is that this was a special establishment, and that it differed from any other that was in existence so far as the Department of National Defence was concerned.

Mr. RYAN: Does the department also have to carry a heavy burden for Camp Borden in respect of operating costs?

Mr. MILLAR: I am not sure that I can answer that.

Mr. ARMSTRONG: In respect of what?

Mr. RYAN: Does the Department of National Defence have to carry certain operating costs for Camp Borden, let us say?

Mr. ARMSTRONG: Oh, yes, we pay all the costs of operating Camp Borden.

Mr. RYAN: I would ask Mr. Henderson if Gagetown is any different, and if so, why?

Mr. HENDERSON: Because I am explaining here how the town itself was formed, and about these operating grants having to be made to the town, and how they have exceeded original expectations. You will notice, if you look at the table, that there have been \$4½ million of capital assistance, loans,

made to this town, on which interest has been charged by the Department of Finance. The only repayment of these loans that has been made has amounted to \$423,000; in other words, they have only paid back 10 per cent of the loan; the rest is still outstanding, and the remaining balance of \$4 million is still sitting there as an advance by the federal government to the town of Oromocto as such.

Mr. RYAN: Are you looking for a write off.

Mr. HENDERSON: I wonder. Here we have an investment, and we are carrying the assets on our balance sheet in the amount of \$4 million. If you look at the financial statement of the town of Oromocto you will see that they have expenses of \$1,600,000 with revenue of \$81,000; so I suggest that the repayment prospect is not a very bright one. That is why I drew the attention of the house to this worsening situation. I do not know what the answer is. I think some good ideas have been brought out this afternoon, and I think that Mr. Armstrong has given us a great deal of background. But I do not suppose there is any ready solution for it. Whether the federal government will ever be able to recover its \$4 million of loans outstanding, I cannot say; but I felt that it was necessary that the members should know about it.

Mr. RYAN: There must have been other cases in the past where the government has poured capital into army camps.

Mr. HENDERSON: The bases at Borden and at Camp Petawawa are different in that they are wholly creatures of the Department of National Defence.

Mr. ARMSTRONG: Yes, basically the costs are paid by the Department of National Defence. Occasionally at Borden, in the army portion of it, you have some investment; for example, there would be the Maple Leaf Services which might build a shopping centre; but by and large the investment is entirely that of the Department of National Defence.

Mr. RYAN: And it is carried over from year to year as an expense?

Mr. ARMSTRONG: That is right; it is shown as an expense.

The VICE-CHAIRMAN: We have had quite a good discussion on this paragraph. We have a few more questions to come from Mr. Cardiff and Mr. Southam. Might I request that they be made as short as possible so that we might terminate the examination of Mr. Armstrong today?

Mr. CARDIFF: My questions have already been partly answered, but I would like to have a little clarification of what proportion of the cost of operation since this town has been formed has been paid by the town, and what portion has been paid by the Department of National Defence.

Mr. WINCH: That is a good question.

Mr. ARMSTRONG: Perhaps the best way to give you this is for me to run through very quickly the revenue side of the financial returns from the town.

In 1956 the total revenue, contributions, grants and subsidies was \$80,430, of which the federal government paid \$75,000, and there was \$13,000 paid in taxation, plus \$8,000 in interest. Do you want me to go into this year by year?

Mr. CARDIFF: I think it would be more enlightening to the committee if you gave the figures year by year.

Mr. ARMSTRONG: I have them all there. I could also produce a short statement and give it to the committee.

Mr. CARDIFF: Yes, it would be a better idea.

Mr. HENDERSON: Can I just make one statement, perhaps to wind up this discussion and to answer in particular the point made by Mr. Ryan? If you look on page 77 of my 1962 report you will see there paragraph 142. This is

also headed, "Loans to the town of Oromocto". I direct your attention to the last paragraph which explains very clearly why I brought it forward. It reads as follows:

In the circumstances described in paragraph 81, where it is noted that the operating costs for the calendar year 1961 amounted to \$1,602,000 while revenues totalled only \$81,000, it seems unrealistic to continue to treat the loans to the town as an asset item for purposes of the statement of assets and liabilities.

That is to say on our balance sheet of the government of Canada.

This view was previously put forward in the report for 1959 at which time the outstanding loans stood at \$2,943,000.

In other words, this is a type of asset which is surely very dubious in view of the circumstances in which the town finds itself today, and I am hoping that that comment might commend itself to the Department of Finance perhaps to give it a different treatment, although I agree with them that they would like to see some of the money repaid.

Mr. WINCH: You do not think it is possible to have it repaid at all? As the Auditor General and as an accountant you would like to see it treated in such a way that it is wiped out? Is that your view?

Mr. HENDERSON: I do not think it is an asset.

Mr. SOUTHAM: Mr. Chairman, I would like to ask Mr. Armstrong a question on the basis of the personnel stationed in these 900 housing units. Did I understand you to say you had appraised their rental on the basis of about \$90 a month?

Mr. ARMSTRONG: I was giving an offhand guess of the average.

Mr. SOUTHAM: On the basis of the ranks housing these units, how does the rental compare with the rental they pay in other places in Canada, such as in Ottawa or in Winnipeg? I wish to follow up on the discussion we had this morning when you mentioned the figure of \$115 a month.

Mr. ARMSTRONG: What we mentioned this morning was the average termination of leases. The rental of houses which are owned by the department and occupied by members of the forces is uniform across the country wherever they are.

Mr. SOUTHAM: How does this compare with a member of the armed forces having to rent privately some place else?

Mr. ARMSTRONG: It is lower by and large.

Mr. SOUTHAM: I was trying to find a partial solution to this problem so as to make it equitable across Canada. If you take these 900 housing units on the basis of \$90 a month and raise the rental to \$115 a month, which to me would appear more reasonable, it would bring us a revenue of about \$570,000 extra. This would possibly liquidate a third of this \$1,602,000. I think that possibly there is an inequity here as far as rental is concerned. What comment would you have to make on that?

Mr. ARMSTRONG: This is a point. We raised the amount that we paid to a man when he was living out a couple of years ago, with the last pay increase. It is conceivable that some adjustment is again due in this. We would normally make it, I think, if we came to the conclusion that we should do so, at the time of a general pay increase for the forces.

Mr. SOUTHAM: The implication of my question is this, if personnel stationed here at Camp Gagetown were to get preferential treatment in relation to other members of the armed forces who had to live out by renting premises

from a private landlord, the taxpayer of Canada would, in other words, be subsidizing this particular group who are fortunate enough to live in Camp Gagetown.

Mr. ARMSTRONG: This is a rather difficult balance to get at, the right adjustment between the man living in and the man living out. I think I am right in saying that the man living in, by and large, tends to be a little better off than the man living out. On the other hand, he is depending on the camp, he is asked to go and live in a quarter on a camp which may not necessarily be the most pleasant way to live, and so on. These are therefore some offsets to this.

Mr. WINCH: Anyone who objects to living in Camp Gagetown is foolish.

Mr. ARMSTRONG: Camp Gagetown is very pleasant, I agree.

Mr. CAMERON (*High Park*): Is this \$1,602,000 paid out of the consolidated revenue fund?

Mr. HENDERSON: No, that is paid by the town of Oromocto, those are its operating costs.

Mr. CAMERON (*High Park*): I know, but we were contributing, in 1961-62, operating grants of \$1,049,000.

Mr. HENDERSON: It is the operating grant which puts the town in funds to pay those expenses.

Mr. CAMERON (*High Park*): Where is the accounting of revenue that the Department of National Revenue gets for these houses so that we can see what they are doing with it?

Mr. HENDERSON: That goes into the consolidated revenue fund.

Mr. ARMSTRONG: Perhaps I might explain that the amount that is paid by the department to the town is provided by an appropriation which is in the Department of National Defence estimates each year. As far as the houses are concerned, we do not in fact collect anything for them, we simply pay people less money. When a man occupies a house, he is receiving less money than if he were not, so that there is no revenue in that sense.

Mr. CAMERON (*High Park*): Would it not be more accurate and would the committee not understand it better if that were shown, because this actually is not a loss? It could be a lot less than that.

Mr. ARMSTRONG: This would not be shown. You are looking at the town budget. They have nothing to do with the renting of these houses as such.

Mr. CAMERON (*High Park*): But there is a compensating advantage that the department are getting by the fact that they are paying these men less money. If that compensating advantage were set off against the \$1,602,000 it might give a different aspect to the picture.

Mr. ARMSTRONG: We can produce a picture of that kind for you. It does not normally come out in the books.

Mr. CAMERON (*High Park*): I think it might be better.

Mr. REGAN: Mr. Armstrong, I have a short question arising out of Mr. Southam's question. I want to suggest to you that you take under consideration that no rent increase be applied in that area, or in any other area, to any of the lower ranks until such time as you give a pay increase which would give better recognition to the lower ranks than last year's did. I think you should not consider increased rents for any of the lower ranks of the armed forces at the present time.

The VICE-CHAIRMAN: Your question is interesting but it has nothing to do with the 1962 report.

Mr. Winch has a short question.

Mr. WINCH: Yes, my question, sir, is very short. It is my understanding that the town of Oromocto has now a population of approximately one third of the capital city of New Brunswick. On what basis is its revenue only \$81,000?

Mr. ARMSTRONG: The reason for this, of course, is that the town is predominantly Department of National Defence. In 1963, the taxes of the town were \$36,000 on the private property in the town. Revenue from licences and permits came to \$7,917; various revenues from rents were \$1,603; fines, \$3,345; interest on the investments and taxation penalties and so on, \$13,972. Grants of various kinds amount to \$145,000 roughly, and all the rest came from the federal government—\$1,736,071. The reason for that is that it is predominantly Department of National Defence.

Mr. WINCH: What did you pay in your department in the same year?

Mr. ARMSTRONG: We paid \$1,736,071.

Mr. WINCH: Oromocto is a private town. Why did you not collect back from this town, which is outside the military establishment, the rents that would cover that \$1 million? That is the point I am trying to arrive at. Why did you not collect back in your rents or licences, or whatever you do, that \$1 million odd?

The VICE-CHAIRMAN: Because, I would suggest, Mr. Armstrong, the rents would be prohibitive.

We have obtained a great deal of information from this paragraph and I know we are all anxious to know what happens in paragraph 82. I am therefore going to ask Mr. Henderson to tell us what happened in paragraph 82.

Mr. WINCH: You mean that I will not find out why we lost a million dollars?

Mr. CHOQUETTE: It is contained in the report.

Mr. HENDERSON: Mr. Chairman, this relates to my comments on the unauthorized use of crown owned vehicles, and I would refer you to paragraph 82, page 33 of the 1962 report and to paragraph 66 on page 38 of the 1963 report. They both deal with the same subject.

My comment here describes the damages required to be paid to a civilian to the extent of \$14,500, when a national defence vehicle was being driven without authority. As the note explains, the driver of the vehicle was reprimanded and he had to reimburse \$250 to the crown, this being the maximum amount recoverable under existing regulations in cases where vehicles are driven without authority on official business. Where vehicles are driven without authority, the Department of National Defence Act does provide for imprisonment up to two years or "to less punishment". However, there is no regulation indicating what is to be recovered from the serviceman when the crown incurs a loss in such cases.

We dealt with this matter on June 9 when there was some discussion in the committee, Mr. Chairman, and I do not know to what extent the members would like to question Mr. Armstrong about it.

The VICE-CHAIRMAN: Mr. Armstrong may want to make a statement upon this.

Mr. ARMSTRONG: I do not particularly want to make a statement unless you would like the background of the case.

The VICE-CHAIRMAN: It might save some time if you were to make a brief statement.

Mr. ARMSTRONG: The problem here as far as we are concerned is that this was an *ex gratia* payment; in other words, the crown decided to reimburse the

person who was hurt or pay the damages on an *ex gratia* basis. It is a prerogative of the crown to decide to do so.

We in the department do not have any legal way of imposing that payment on the driver who was involved. In this particular case, the driver struck a woman in England and caused her very serious injury, permanent damage, which crippled her. The amount that was paid was \$14,500. The man who was involved was a corporal in the air force who had five children and no assets. There was really no possibility of recovering anything from him in any event. He was charged in the civil court and paid a fine of £19.17s. 6d. He did reimburse the crown to the extent of \$250.

There are two problems. The first one is the legal problem of our inability to recover from him in terms of a payment that we make on an *ex gratia* basis. The second is the simple problem that he does not have the resources to pay in any event.

Mr. WINCH: May I ask one question?

The VICE-CHAIRMAN: After Mr. Hales.

Mr. HALES: Have any new regulations been formulated to take care of this situation? It would have to be a legal authority, I suppose, to collect indemnity from the driver in future cases?

Mr. ARMSTRONG: We have examined it but we have no new regulations. Our own legal authorities tell us we simply do not have a legal claim when it is an *ex gratia* payment.

The VICE-CHAIRMAN: Mr. Winch.

Mr. WINCH: Mine is perhaps a curious question. I have noted something of this nature from the Auditor General's reports over the years. Because of my reading over the years of the reports of the Auditor General that it almost always concerned a member of the armed forces taking a vehicle without authority—in other words, stealing it—I would like to ask the deputy minister if these people are ever charged with theft.

Mr. ARMSTRONG: They can be charged with theft and they might be, but as you know—and the Auditor General referred to the National Defence Act—the man may draw a maximum penalty of two years imprisonment, but in most of these cases the circumstances are really not those of theft. In this particular case the man had been driving a vehicle on duty at a week end. In these circumstances he was allowed, overnight, to take it to his home which was in the vicinity of where he had driven the individual on duty. A friend of his telephoned him and said that his car had broken down and asked if he could please come and help him. He made the mistake of taking the national defence vehicle to go and help his friend, and in the course of that journey he became involved in this accident. That is what happened, and I do not think one can regard this as stealing; it is a mistake in judgment.

The VICE-CHAIRMAN: Has Mr. Henderson any comment to make on that?

Mr. HENDERSON: Mr. Chairman, what I would like to ask the committee here is whether or not they would agree with our view in the audit office consideration should be given to this matter to the end that there may be uniformity in the penalties imposed in like circumstances on all persons using crown owned vehicles without authority. That is to say, should we not have uniform penalties across the board?

If you look at my 1963 report note on page 39 you will see that I say that during the year 1962-63 there were three instances of accidents involving crown owned vehicles driven by employees of the Department of Transport—and that is another department entirely—while not acting within the scope of their duties. These cases came before the treasury board, which directed that the employees concerned reimburse the crown to the same extent that is provided

by the regulations in a case where an employee is considered as having been on duty at the time of the accident and to have been negligent to other than a minor extent, and the result was that there were assessments of one third of the total costs in two cases and one fifth in the third. That is to say the total cost to the crown.

When giving its ruling in respect of the third case, the treasury board agreed to deal with it on the same basis as applied to the two earlier cases. It was of interest to us that the treasury board expressed deep concern in this matter and instructed the department in like cases in the future that full recovery was to be made from the employees involved.

This was our experience in 1962-63 and I would submit to you that this supports our view, I think, that consideration should be given to this matter to see whether it is possible to at least bring some uniformity to the penalties imposed in like circumstances in respect of persons using crown owned vehicles without authority.

Mr. ARMSTRONG: Mr. Chairman, I wonder whether I may be allowed to add a word to the comment made by the Auditor General?

We do collect damages to our own vehicles. When a driver takes a vehicle without permission and damages it we collect from him the cost of the damages incurred. We have not been able to collect in the case of the crown making an *ex gratia* payment to somebody else, a third party.

My understanding, Mr. Henderson, is that the Department of Transport in respect of those three cases collected the damages to their own vehicles. We also collect such damages.

(Translation)

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: If you will allow me I will ask a question in French. It is somewhat alarming to think that anyone can use a vehicle—

The VICE-CHAIRMAN: I wonder if you could start again, Mr. Choquette—

Mr. CHOQUETTE: I consider that \$14,500 is quite a substantial amount for an individual who has committed an offence, when all is said and done, at the expense of the taxpayer. But what I do not understand is that you say there is no regulation that provides for getting the money back from a member of the armed forces in cases where the Crown suffers a loss. When someone uses a vehicle belonging to the Crown and he is not on duty, that individual comes under ordinary law. How is it the government are not able to get back not only the amount for the damage done to the car involved but the amount of damage claimed by the victim of the accident? There is responsibility under ordinary law which applies all the more so that the individual who used the vehicle without authorization is no longer on duty, he is not in process of carrying out his duties. So could the government not get back the money he had to pay, that is \$14,500 in this case?

(Text)

Mr. ARMSTRONG: The problem involved in this regard is that the government paid \$14,500, as I say on *ex gratia* basis. Although I think it would be a rather complicated legal process, it might be possible to have the rights of a claimant against an individual transferred to the crown so that the crown could then pursue a claim if in fact it was considered the crown could establish a claim in court. In any event this would be difficult, but in the case in question, as I have pointed out, the man has no assets and it would hardly pay to pursue a case of this kind when there is no chance of collecting even if one is successful.

(Translation)

Mr. CHOQUETTE: I do not know whether it would be going too far, but could the government not consider the possibility of insurance against irresponsible behavior of this kind. The insurance would probably cost more than the money that has to be paid for the claims that are made.

(Text)

The VICE-CHAIRMAN: It would be much better to carry your own insurance.

Mr. ARMSTRONG: I think you have answered your own question.

Mr. REGAN: Mr. Henderson has asked for our comments in this regard and I should like to find out whether Mr. Armstrong agrees with a view I hold quite strongly, and upon which Mr. Choquette has touched.

The army, navy and air force are large organizations and, as with any large private company, these situations do not involve black and white areas but grey areas as well. An individual may be in possession of a vehicle overnight because he has to do a specific job such as taking an officer somewhere in the early evening. There is indeed a very slight distinction between performing that function and using the car before or after to go down to the corner store, or take the long way home to make a call. Since the situation does not involve the armed forces carrying insurance, I would suggest we are involved in a situation where the armed forces must look after their own claims and accept the fact that there will occasionally be cases of this type occurring. In respect of a private company when a man has the company's vehicle for his own use and becomes involved in an accident, that company would be carrying insurance which would cover the damage. I do not think this type of case involves anything but a usual situation. I think it would be indeed harsh to treat members of the armed forces more severely than is the case at the present time under these circumstances, considering the current insurance aspect.

The VICE-CHAIRMAN: May I ask you now, Mr. Regan, what is your question?

Mr. REGAN: This is not a question.

The VICE-CHAIRMAN: Are you making a statement?

Mr. REGAN: I have made a statement.

(Translation)

Mr. CHOQUETTE: I have a question, Mr. Chairman.

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: I have one last question. Did you consult the lawyers before paying the amount claimed and did your lawyers tell you that it was the Crown's responsibility?

(Text)

Mr. ARMSTRONG: In the case in question, of course, we consulted our lawyers. This particular accident happened in the United Kingdom and we have a reciprocal agreement under the NATO status forces agreement whereby investigations are carried out by lawyers of the United Kingdom. I do not think there was any question at all about liability. The woman in question was struck while she was crossing a crosswalk. This involved a case of carelessness on the part of the driver.

Mr. WINCH: Perhaps I could ask a further question.

Mr. REGAN: I think Mr. Choquette wanted to make a comment in respect of my question.

The VICE-CHAIRMAN: I think we should wait until we have heard the answer.

(Translation)

Mr. CHOQUETTE: Mr. Chairman, my supplementary question concerns the case I have come across in reading paragraph 82 of the report. It seems to me that anyone who uses a vehicle without authorization but while carrying out his duties—and I do not understand how legal advisers could have told you that it was the government's responsibility—the individual himself is guilty of that offence, of having used a vehicle that did not belong to him without authorization. In that case he was not carrying out his duties and I cannot understand why there was not more consultation with the legal advisers of the Department of National Defence who should have advised you not to pay that amount.

(Text)

Mr. ARMSTRONG: I agree with you completely, that the crown was not liable because the vehicle was being used by a driver without authority. There was no legal liability on the crown, but the crown decided under these circumstances it was wise to pay this sum to the woman concerned.

(Translation)

Mr. CHOQUETTE: Oh yes.

(Text)

Mr. HENDERSON: Perhaps I might speak to the point raised by Mr. Regan. I take it from your remarks that you do not agree there is a case for uniformity between dealings in respect of an employee of the Department of National Defence and an employee of the Department of Transport. I told you what the treasury board directed in respect of the Department of Transport. Do you think that the Department of National Defence is different and the practice should not be uniform? Do I understand you correctly?

Mr. REGAN: I think there is a case to be made for uniformity. However, I think Mr. Armstrong made a distinction between collecting the cost of damages to government property and damages to a person or private property.

Mr. HENDERSON: In both cases automobiles were taken without authority.

Mr. REGAN: One involved damage to the automobile itself, which is something quite within reason, while the other involved damage to an individual or private property.

Mr. HENDERSON: I asked this question because these cases are coming along quite regularly, and I think the case which can be made for uniformity is a strong one. You are just receiving an indication of some of the types of cases occurring.

Mr. REGAN: If you are going to have uniformity I suggest it should be on the basis of bringing treatment in respect of the Department of Transport in line with treatment in respect of individuals at the present time in the armed forces. I do not think you should be more harsh in your treatment of these people, because the situations outlined to us do not fall into the category of a man who takes a car, travels to Scotland, gets drunk and drives on the wrong side of the road.

Mr. HENDERSON: But is that not just a different type of accident?

Mr. REGAN: Yes, it is quite a different type. A certain amount of deviation from duty, if human nature is to remain what it is, will always occur, and I do not think we should be more harsh than the department has been at the present time. As I say, the whole answer lies in the fact we do not carry insurance and as it would be more expensive to carry insurance we are receiving more benefit and coverage than if we did carry insurance.

Mr. HENDERSON: I have one other question to put to Mr. Regan.

Mr. REGAN: Do you want me to be sworn in?

The VICE-CHAIRMAN: Mr. Regan appears to be quite familiar with this type of case.

Mr. HENDERSON: Mr. Regan, do you not think it would be a more effective deterrent to accidents of this type if employees knew they were going to be charged with the full cost of their damage?

Mr. REGAN: No. With great respect, I think this is almost a hangman's philosophy. You are confusing criminal punishment or disciplinary action taken by the armed forces with the common law or the civil law and I do not think the two should be confused.

There is no doubt there may be some merit in having some disciplinary measures such as reduction in rank or discharge for a man who deviates seriously from his duty. That is one thing, but you are making the fundamental error of confusing the question of the civil claim with the taking of punitive action for a criminal matter or breach of duty. These are two very different matters. I believe there might be a case for the military people being more stringent in making sure that their personnel do not use vehicles in an authorized manner but this should not be done by putting the burden of a civil claim on their shoulders. Do you not agree that this should be resolved by the taking of military action within the ranks?

Mr. ARMSTRONG: The point I am making, and I may be wrong, is that I had understood from the Department of Transport that in the three cases that were referred to, the damages that were recovered were damages to their own vehicles. We do recover the damage that is caused to our own vehicles. It was the *ex gratia* payment side, the third party aspect, that we did not recover and which I have explained.

If a man is on duty, is negligent, and is in an accident, there is a scale of assessment against him, not necessarily the full amount of damage but a scale of assessment which, I think, is uniform for the government as a whole.

Mr. HENDERSON: Yes, but we are dealing here with unauthorized use and it is a case of uniformity that I am interested in, as is the treasury board, because in the three cases I mentioned—and, I recollect the letters—the vehicles were damaged and other people's vehicles were damaged and there were substantial bills in front of them to deal with. You see how they assessed the three employees in these instances. But, that apparently would not be the case in the Department of National Defence, and that is why I stress the word "uniformity".

Mr. WINCH: Mr. Chairman, I am not going to ask a question but, if I may say so, this is one time in my life that I wish I were a lawyer. After hearing from my friend I would like to know how in the name of heaven you make a civil claim against a civil servant who is operating a government vehicle illegally. I am sure that would be a most fantastic legal discussion.

Mr. REGAN: It does not pose a problem to me.

The VICE-CHAIRMAN: Mr. Armstrong has answered by saying the payment was made not because the government was liable but because this concerns a government that has an installation in a foreign country.

Mr. WINCH: In view of what I understand from the discussion now could I ask Mr. Armstrong whether he will express the view that in any matter concerning civil servants or personnel of the armed forces or others there should be uniformity of charges and responsibilities, and will he go along with that in respect of illegal use of vehicles?

Mr. ARMSTRONG: Yes, I think I would agree that there should be reasonable uniformity.

Mr. WINCH: You agree there should be uniformity across the board?

The VICE-CHAIRMAN: You are next, Mr. Cardiff.

Mr. CARDIFF: I would like to ask Mr. Armstrong a question. Are not these service drivers who drive government vehicles fully licensed?

Mr. ARMSTRONG: They are all fully licensed drivers. They are all qualified drivers.

Mr. CARDIFF: Would they not all come under the insurance?

Mr. ARMSTRONG: Well, this of course took place in the United Kingdom. I am referring to this particular accident, and I do not think our drivers come under it. For example, in Ontario, we do not insure, as you know, and our drivers do not come under the Ontario fund. Federal property does not come under this.

(Translation)

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: Mr. Armstrong, regarding the second last paragraph of section 82 where the Treasury Board recently drew the attention of the department and government agencies to the instructions that had already been given to be careful that vehicles belonging to the Crown are not used without authorization. The Board insisted that cases be dealt with more severely because of the increasing number of accidents. So you admit that such cases are frequent and as the amounts involved are considerable, \$14,500 in the present case, should a member of the armed forces not be suspended when he does something like this, because apart from committing an offence, that is the offence of using a car that does not belong to him, he is guilty of negligence which involves an expenditures of \$14,500. Not only does the individual fail in his duties but he is guilty of very serious negligence involving a very considerable amount of public money. It would be preferable to request that such an individual be suspended rather than pay the claim. It would show that the armed forces are concerned if they advise the administration that such an individual should be suspended. Do you not think he deserves to be suspended?

(Text)

Mr. ARMSTRONG: Mr. Choquette, of course a man is tried under military law and he may be dismissed for the offence if, in fact, it is considered serious enough to dismiss him. In this particular case, after the man was tried he was reprimanded and he did pay \$250.

I explained the circumstances of the case to you. While one cannot go into all the detail that would be necessary to formulate a judgment here there obviously were, I think, some rather extenuating circumstances in this particular case.

(Translation)

Mr. CHOQUETTE: Do you know the victim, the author of the accident and the circumstances in which the accident occurred?

(Text)

Mr. ARMSTRONG: Yes. As I explained, I do not recall the names but I can get them for you.

As I understand it, this was a corporal driver who had been driving on official duty on the week end. He had the car at his place of residence and, officially, he was permitted to do this. A friend of his called his house and said that he was stuck on the road and could he please come and help him. And, while he should not have done so, because this was using the vehicle for an unauthorized purpose, in fact, he did go to help his friend. In the course of getting to where his friend's car was, he struck a woman who was crossing a crosswalk. This woman was very seriously injured. She had permanent injury

which crippled her to some degree and, as a consequence, it was decided to pay damages, to the extent of \$14,500, although the crown was not liable because he was driving the vehicle without permission.

(Translation)

Mr. CHOQUETTE: Now, did the accident happen because of a mistake or because he was drunk?

(Text)

Mr. ARMSTRONG: My recollection is that there was no evidence of alcohol.

The VICE-CHAIRMAN: Did you get your answer?

Mr. RYAN: Mr. Chairman, I would like to ask either one of the witnesses whether, in these four cases, a judgment was obtained directly against the drivers of the vehicles who worked for the government?

Mr. HENDERSON: I do not know, Mr. Ryan, whether there were judgments. The cases came before the treasury board and it was a question of determining how much should be assessed against the employees of the department who were responsible.

Mr. RYAN: I do not see how you can expect to have any unification whatsoever unless the man has been properly assessed by the court for responsibility for the accident; otherwise you would have a department saying "Our man is not at fault".

Mr. HENDERSON: I think we are safe in saying the matter had been through the courts and that judgment had been handed down. It was a question of whether the crown or the employee responsible was to pay the money. This is how the treasury board squared off with the employees, taking all the circumstances into account.

Mr. RYAN: In other words, you say, "We will pay it for you and you pay us back in full."

Mr. HENDERSON: They make a variety of arrangements. Inasmuch as Mr. Armstrong told the committee he agrees there is a case for uniformity, perhaps some progress can be made in the direction of levelling this off in respect of treatment of civilians on the one hand, and national defence personnel on the other.

Mr. RYAN: What about the case of a man who becomes responsible for a judgment in the amount of \$100,000?

Mr. HENDERSON: They have to approach it realistically. If the man does not have money, then the crown will make the best deal it can expect which may not be very favourable; but, on the other hand, there may be a number of cases where something could be paid.

The VICE-CHAIRMAN: Mr. Francis.

Mr. FRANCIS: Mr. Chairman, I would like to say in my opinion I think we have explored this about as far as we can, I have nothing I feel I want to criticize the department for, because I think the number of cases which arise are not too great.

Mr. WINCH: I would like to thank Mr. Armstrong for his answer in reply to my question, do you believe unification would be good, when he said yes. That was exactly the point brought to our attention by the Auditor General. Mr. Armstrong says he agrees.

Mr. HENDERSON: I was very pleased to hear that.

The VICE-CHAIRMAN: The next paragraph is 115, non-productive payments.

Mr. HENDERSON: Under paragraph 115 there are nine cases of non-productive payments arising in the Department of National Defence. In my 1963 report, where the non-productive payments are listed in an appendix, there are six. I do not know to what extent you would wish to go into the detail of the non-productive payments, but presumably you might have some questions. I think a number we have here actually are attributable to Defence Construction (1951) Limited, and I do not know whether Mr. Armstrong would be sufficiently briefed to deal with those. We grouped them under the heading Department of National Defence for this purpose.

The VICE-CHAIRMAN: I do not wish to stop you, Mr. Henderson, but I am wondering whether members of the committee who are interested in one clause or another might ask questions which could be answered either by you or Mr. Armstrong.

Mr. HENDERSON: Indeed. Would you like me to run through these very briefly, and you can stop me on any item in which you have an interest?

Mr. HALES: Mr. Chairman, we might have sort of a discussion on the whole matter. In reading over these items, I notice that in most cases they appear to be as a result of poor drawings, a poor decision on somebody's part, or a lack of decision. Each one of them hinges on these particular things I just have mentioned.

Now, I think we come to the point, who is responsible; what do we do so that it does not happen again, and continue year after year.

Mr. WINCH: In other words, because we see this year after year, would Mr. Armstrong perhaps give us some general information in respect of what is going to be done so far as possible to see that we do not have these items occurring again?

The VICE-CHAIRMAN: If the committee agrees, that is an excellent idea.

Mr. WINCH: Mr. Henderson's view is before us. Let us hear Mr. Armstrong now.

Mr. ARMSTRONG: Mr. Chairman, it is rather difficult to give a general view. All these are specific cases. As I believe you have noted, in every case something has gone wrong which has resulted in the cost being more than was originally estimated.

When this occurs in the department, so far as we are concerned, we examine the cases very carefully, and if there are changes in our arrangements, or procedures, which will prevent this happening again, we certainly take those steps. I am afraid I would be an optimistic man were I to say to this committee there will not be others in the future, because I think there will be.

In the volume of business we do, and with the great variety of circumstances which apply, there almost certainly are going to be cases where things happen in the course of an undertaking which will cause it to come out a lot differently to what we thought it would when we started. I can assure the committee we certainly examine all these things carefully. We endeavour to correct any mistakes of the past, and avoid their recurring in the future.

Mr. HALES: Would Mr. Armstrong give us one or two examples where this has happened in his department, and where it has been traced down to a poor drawing, we will say, and where you have placed the responsibility on one individual. Then, would you tell us in what way the individual was handled; was he demoted, released, or what form of punishment, we will say, took place?

Mr. ARMSTRONG: I do not think I can give you out of hand any specific cases that would produce the kind of information you are seeking. While there have been cases where individual errors of this kind might have been

such as would result in some specific action such as a reduction in rank, that does not happen very often. Obviously, if a man does not operate efficiently and it comes to attention, it does get on his record, and would be taken into account in considering him for future jobs. These are not necessarily army or military personnel who are involved in this. There may be some of them, of course, naturally.

Mr. WINCH: How do you explain our getting this kind of report year after year?

Mr. ARMSTRONG: I can only explain it in this way: with the volume of business we do, with the number of contracts we have, and with the varied circumstances under which they are undertaken, they do give rise to situations, some of which are of the nature of those before you.

Mr. WINCH: Shall we go back to some of the things we had this morning when there was bad engineering in your department?

Mr. ARMSTRONG: I do not suppose you want to go back to the case we discussed this morning. I do not agree that it was bad engineering, myself. The survey was not adequate to determine exactly what was involved, and the contract cost more.

Mr. WINCH: How about these cases here? Were they due to bad engineering also?

Mr. ARMSTRONG: Which one?

Mr. WINCH: You may take any one of them.

Mr. ARMSTRONG: All right.

Mr. WINCH: You pick any one out.

Mr. ARMSTRONG: Look at the first one. This resulted eventually in our making an *ex gratia* payment. When you say it was bad engineering, it was a consequence of a contract which resulted in the final work being done later than we anticipated when we made the contract with the gas company. Consequently we did not have the boilers ready, and we were not able to take the gas.

Mr. WINCH: Was that bad engineering, or what was it?

Mr. ARMSTRONG: It was really a delay here in getting the design done which had been contracted out. When you ask if that is bad engineering, I would say that I had every hope that the design would be ready sooner. The company who did the design said that they would get it out as quickly as they could; but perhaps we were at fault in assuming it could be done sooner than was the case.

Mr. WINCH: Are you jumping from one to three and five?

Mr. FANE: I want to ask a question on one.

Mr. HALES: It says in number one, that Mr. Armstrong has been speaking about, about half way down:

...but no date was specified by which the plans and specifications were actually to be produced by the consultant.

Would that not lead us to believe that someone in the Department of National Defence slipped up and failed to have a date specified when these plans were to be ready?

Mr. ARMSTRONG: Let me run over this for you.

Mr. HALES: I wish to stay with this one question.

Mr. ARMSTRONG: I am talking about your question. We requested consultant services on March 25, 1956, when we asked Defence Construction Limited to arrange for consultant services. A consultant's contract was awarded

on June 5, 1959. A contract was then awarded to another company for the supply of the fabrication and the erection of the boiler on September 28, 1959.

Specifications for that contract called for the boiler manufacturer to supply the foundation drawings for the boiler within two weeks after the contract award, and to provide shop drawings and complete installation as soon as possible.

That information was necessary for the consultant to design the actual extension to the central heating plant. In fact, the foundation drawings were not provided until February 15, 1960, and the shop drawings only became available in March, 1960.

Mr. WINCH: They were about seven months late.

Mr. ARMSTRONG: Yes, they were considerably late.

Mr. WINCH: About seven months late.

Mr. ARMSTRONG: Well, five to six months. The contract was awarded to the Poole Construction Company on September 8, 1960, and work commenced on October 1. Foundations for the boiler were ready on January 3, 1961, and we finally took over the building on July 4.

In the terms that you have asked me the question on the contract itself, in the terms of the contract requiring production of drawings at a given date, in order to accomplish what we wanted to have done, we had to have the complete design by about December, 1959. That is what they meant about the company providing the foundation and shop drawings, and the need to complete them in four to five weeks time. This was regarded as not being an unreasonable length of time for that particular job.

If all of that had happened we might have had the plant extension completed by the fall of 1960 when we wanted to have it done.

Following all this there was a review of the contractual documents pertinent to the matter. The legal officers felt there would be little or no chance of success in claiming an action against the contractors for delay. In supporting it they referred to the fact that the specifications for the contract with the boiler manufacturer called for him to supply foundation drawings for the boiler within two weeks after the contract award, and to supply the shop drawings and the complete installation as soon as possible.

While there might be little doubt that there was delay in the production of those drawings, the contract itself with the boiler manufacturer did not include a penalty clause, and the contracting agency, that is, Defence Construction Limited, did not feel that it would have an adequate case to prove that there was unreasonable delay.

So in the light of the two factors it was considered that there was no claim that could be enforced against the contractors.

You say: How does this happen? Well, there you have a set of circumstances. It happened perhaps in part because our own engineers were too optimistic, or it certainly turned out that they were too optimistic. It probably happened, in part, that the contractors themselves did not do the job expeditiously enough, or perhaps also that the contract itself was not drawn precisely enough in terms of the dates involved. So there you have a number of factors which contributed to this, and which resulted in the final heating plant extension being delayed, with the result that the gas supplier lost a considerable sum of money through no fault of his own, and the government finally paid him an *ex gratia* payment on that account.

Mr. WINCH: Could I ask one question? I am more and more amazed at the inefficiency of the engineering department. I understand that your assistant deputy minister is in charge of engineering construction.

Mr. ARMSTRONG: He is in charge of it for me. Of course, each service has an engineering department.

Mr. WINCH: If I heard you correctly you have just said that there was a five months delay in one case. Did your assistant deputy minister in charge of engineering construction draw to your attention in any way at all the reason for the five months delay which finally resulted in an extra payment having been made?

Mr. ARMSTRONG: I do not think it was drawn to my attention at the time, but I did not mention that when I went through that list of items during this period there were many efforts to get those drawings under contract; that it was not simply forgotten about during the five months.

Mr. WINCH: How do you handle a contractor who was five months in delay in supplying what your department has ordered?

Mr. ARMSTRONG: In the final analysis you must handle them through a contract.

Mr. WINCH: In the final analysis it strikes me you pay him for his delay.

Mr. ARMSTRONG: The people who are concerned with the administration of the contract itself are of course Defence Construction Limited, that is a branch of the government which must deal with the contract and the processing of any claim under the contract.

Mr. WINCH: I have no more questions. I just want to make one suggestion because I think we had a most interesting discussion this morning and this afternoon. I believe the committee perhaps might like some time to get the Department of National Defence and the Department of Defence Production together before this committee, and then perhaps we can get another viewpoint as to the reasons for the delay and the extra cost.

The VICE-CHAIRMAN: Before asking Mr. Cardiff and Mr. Regan to put their questions I was wondering whether the committee would give us permission to sit tonight at eight o'clock. Mr. Armstrong said he could make himself available to the committee. We have a number of paragraphs on which we would like to ask questions. Next Thursday there is an arrangement for Mr. George Scott, assistant acting deputy minister of the Department of Transport, to come here as you are all anxious to see him. If the committee agrees, we will sit at eight o'clock tonight, and Mr. Armstrong has kindly said he would make himself available to the committee. It is agreed.

Mr. CARDIFF: My question is not on this first paragraph. Have we passed that?

The VICE-CHAIRMAN: We are on item 115. There are many paragraphs in that item.

Mr. CARDIFF: I have something to say on paragraphs 3 and 4. In both of these cases it was the defence personnel who were at fault for the delay. It cost you \$11,371 in paragraph 3 and it cost you \$66,591 in paragraph 4. In both those cases, as far as I can read this report, the personnel who hired the contractor was at fault. Whose fault is that? In both cases there are delays but not owing to the contractors.

Mr. ARMSTRONG: Unfortunately, I did not bring with me all the details of these particular items. I could give you a very brief assessment of this. We have a standard list of colours for houses from which the selection of colour schemes may be made. It appears that in this particular case the people concerned wished to have some brighter colours than that, and the contractor agreed to put some different colours on at the request of the people at the site and did not at the time say that there would be any additional costs involved. The contractor subsequently put in substantial extra claims for

this, and after it had been investigated by both Defence Construction Limited and our own department, an additional claim was paid on this account. I agree with you this is a thing which should not have happened. It is something which we should not have done.

Mr. CARDIFF: The same thing happened in the case of paragraph 4. This was a different kind of contract entirely. They were putting in sewers and electrical systems at the starting point in the contract and it took them away from their main work. They had to use extra equipment. That cost you \$66,591. That again was a case which should not have arisen.

Mr. ARMSTRONG: I agree with you it should not have happened, and I think it happened because of inadequate control of the job on the site. Certainly it is understandable that the Royal Military College where they have classes going on are somewhat concerned about the noise and so on, but with adequate liaison between the supervisor of the project and other people who are concerned in it, it might have been possible to avoid this. As far as I am concerned and the department is concerned. I do not see it at all until a claim is presented through Defence Construction Limited saying that all this has happened. Unfortunately, that is a little bit too late to deal with. I think this kind of problem is one that has to be dealt with on site. I think it perhaps would be improved if we eventually reached a position where there is no separation of responsibility between the contracting branch, Defence Construction Limited, and ourselves on the supervision of the contract. This I think would give a direct line of communication that might assist in at least reducing this kind of claim.

Mr. CARDIFF: Would there not be an over-all overseer who would supervise contracts to start with?

Mr. ARMSTRONG: There is generally an overseer, and he is provided by Defence Construction Limited. Mind you, there is good liaison but it would work better if you had one authority and no separation.

Mr. HALES: In connection with this panting job, in line with Mr. Cardiff's question, regarding this additional \$11,370, some one in the Department of National Defence would have to O.K. that payment. Who would that be?

Mr. ARMSTRONG: Actually the responsibility for making a payment of this kind, which would be an extra payment on the contract, is Defence Construction Limited, not the Department of National Defence. However, since more money is involved in it they would normally come back to us and say, "We have to have more money". We would have an opportunity then at that point of examining the extra claim.

Mr. WINCH: On a point of order—

Mr. HALES: Wait a minute—

The VICE-CHAIRMAN: Mr. Hales.

Mr. HALES: Would you, as deputy minister, sign that O.K. to pay that extra money?

Mr. ARMSTRONG: I would not in this particular case, but the provision of the extra money would be signed by an officer of my staff.

Mr. HALES: What authority would he have to pay this extra money on this contract?

Mr. ARMSTRONG: Eventually the authorization here. Defence Construction Limited do the negotiating. They determine that an extra will be paid on the contract. It is their responsibility. They would come back to us, perhaps, to consult us before they finally determined that or they might say, after having arrived at a decision, "We need more money than the contract demand you have given us because there is an extra." At that time we would find out what was the basis of the extra. However, the responsibility for dealing

with the contract is theirs as well as for determining the amount of the extra. They would then, depending on how much is involved of course, have to have that approved by the treasury board.

Mr. WINCH: On a supplementary, Mr. Chairman—

The VICE-CHAIRMAN: Mr. Regan.

Mr. WINCH: This is strictly supplementary, Mr. Chairman.

Do I understand from what you have said, Mr. Armstrong, that defence production or defence construction can make all the mistakes and that your department is the goat in having to authorize payment?

Mr. ARMSTRONG: I do not recall having said that.

Mr. WINCH: No, I am saying that. That is basically what you mean?

Mr. ARMSTRONG: I do not think that is what I mean.

The VICE-CHAIRMAN: The witness cannot agree with you. Rephrase your question.

Mr. CHOQUETTE: Or drop the question!

Mr. WINCH: Do I understand from what you have just said that the actual work and construction is not under your authority but if mistakes are made and extra money is required you are the ones who have to give the necessary authority for a payment for mistakes that have been made by departments not under your direct jurisdiction? Is that a fair way of putting it?

Mr. ARMSTRONG: Let me put it in this way. We specify what we want. If we want a building or painting, or whatever the job is, we provide the specification. We pass that over to Defence Construction Limited with a contract demand which says that we have the money to pay for this up to whatever the cost is. Defence Construction Limited have the responsibility for letting the contract. If they are able to let the contract within the sum of money we have provided, they obtain authority of the treasury board and go ahead and let the contract. If it turns out that our estimate is too low, they would come back to us and say, "We have sought bids on this and cannot get a bid within your estimate"; and we would have to look at it again and decide whether or not to provide more money. Once the contract is let, they have the responsibility for administering the contract and they provide site supervision. They have the responsibility for making adjustments to the contract or approving extras on the contract.

The VICE-CHAIRMAN: Mr. Regan.

Mr. WINCH: No, Mr. Chairman, I wish to follow on.

For a non-productive matter do they come back to you for providing money?

Mr. ARMSTRONG: Yes, we provide the money. We are the only source.

Mr. WINCH: After they have lost the money for you they then come back to you?

Mr. ARMSTRONG: I would not say they have lost it.

Mr. HENDERSON: Perhaps I could round this out for the benefit of the committee from our own notes.

The Defence Construction Limited file here on the case of the exterior painting at Camp Shilo indicates there was inefficiency in carrying out the job. The contractor claimed for extra payments, but the army refuted his claim; and the correspondence continued for a year from October, 1960.

I have here a whole list of the contractor's arguments made to Defence Construction Limited. The army refuted these arguments in a long letter in reply, dated December 28, 1960, to Defence Construction Limited and detailed their reasons. They are very lengthy, but very briefly the officials say the full

responsibility for administering the job was delegated by the contractor to a foreman of works who formerly had been with the R.C.A.F. and whose basic trade was that of a carpenter. It was evident very soon after work started that this man did not possess sufficient detailed knowledge of the painting trade to enable him to direct a job of this nature and magnitude.

The number of available experienced painters in the district at the time was very low. The quality of workmen employed was brought to the attention of Defence Construction Limited but later it became, along with other matters pertaining to this project, the subject of an inquiry by the Department of Labour. The men on the job received very little direction from their foreman and the quality of work was of such a low standard it was necessary to have an A.W.S. inspector on the job full time.

Mr. WINCH: What is an A.W.S.?

Mr. ARMSTRONG: An army works service inspector.

Mr. HENDERSON: An A.W.S. inspector is an army works service inspector. An A.W.S. inspector was required on the job full time to ensure a job of acceptable quality.

Finally, a more experienced man arrived on the scene to supervise the work to the completion of the contract.

Labourers instead of painters were employed on the very important and extensive preparation to services required on the houses.

There is a certain amount of argument about the colour and the way in which the colours were chosen. This letter concludes with a summary of the reasons for the losses incurred on the job in this way:

- (a) incompetent on the site supervision of this contract with special emphasis on the 1959 operation;
- (b) the employment of inexperienced low productive tradesmen;
- (c) the necessity of carrying over the project to 1960 resulting in the additional expense of returning to the site and reorganizing the work and additional supervisory costs;
- (d) supervisors attitude towards meeting the standard of work specified resulting in costly corrective action.

The following amount was arrived at for work beyond the scope of the contract. There are several things listed here such as average extra of \$6 per window opening for 1,465 window openings amounting to \$8,790; increased paint costs; transportation to collect paint, repainting after carpenter work; cutting in around door frames—\$1 per house; travel to Ottawa to discuss claim and overhead costs, amounting to a figure of \$11,371.63, which was finally paid to the contractor on November 20, 1961, under change order No. 3 which is the authority of the Department of National Defence.

Mr. WINCH: I have one final question, Mr. Armstrong. You yourself in your department are not responsible for the incompetence but you are responsible for paying for the incompetence; is that right?

The VICE-CHAIRMAN: That is not always the case.

Mr. ARMSTRONG: I think you have to come to the conclusions in this respect. I cannot say that.

Mr. WINCH: I am asking you the question. You are not responsible for the incompetence in respect of certain work ordered by your department but you are responsible for paying for that incompetence in the work under your direction; is that right?

The VICE-CHAIRMAN: I think you are now referring to clause 3, Mr. Winch, because it has not been established that all of these clauses resulted from incompetence. I assume you are now referring to clause 3.

Mr. WINCH: I am now referring to the information just given to us by the Auditor General and I should like to place responsibility for this incompetence.

Mr. Armstrong, you are firstly responsible for the work that you request and which is directed to the Defence Production Limited, but we have now heard a great deal about incompetence which is not your responsibility although you have had to pay for the extra cost resulting from that incompetence; is that right?

Mr. ARMSTRONG: It is true that if an extra to a contract of one kind or another is finally established the Department of National Defence is the source of payment for that extra. That is true.

The VICE-CHAIRMAN: I think we will entertain one question from Mr. Regan and then adjourn until eight o'clock tonight. While I am referring to our adjournment may I remind members to bring back their reports at eight o'clock because there is a shortage.

Mr. REGAN: Glancing over these items one must conclude that you will always refer to this type of thing in your report year after year, and I have particular reference to that category indicated by No. 5 in respect of which there is a disagreement about interpretation. In attempting to cut down on the number of these things appearing in the Auditor General's report each year surely you must be making a comparison with similar circumstances occurring in private industry of a reasonably similar magnitude. It may well be true there are more of this kind of error being made than in private industry but I do not think you can ever completely eliminate such things as this unless you are able to engage paragons of perfection rather than human beings. There is an old saying in Nova Scotia that the man who never makes a mistake will never achieve or get anything done. In the meantime do you agree that you can never expect, in an operation of this magnitude, to completely eliminate this type of incident?

Mr. ARMSTRONG: I am forced to agree with you although I must say, in reference to your statement in relation to comparing these things with similar circumstances occurring in private industry, that I do not really have access to information that would enable me to make such comparison. I do not know about all the mistakes made in private industry.

(Translation)

The VICE-CHAIRMAN: A very short question from Mr. Choquette.

(Text)

Mr. CHOQUETTE: I have one very short question, sir.

(Translation)

In French. Because...

The VICE-CHAIRMAN: Just a minute please, Mr. Choquette.

(Text)

Mr. CHOQUETTE: The translation system may not be working.

(Translation)

I see here that you paid a few thousand dollars more for the translation, to get the French version of the Canadian Army's participation in the second world war. Three thousand copies were printed in French according to the section we are discussing. Let me congratulate you, and I hope you will also do it for the participation of our men in Cyprus, and also in Korea. Could you tell us, or do you know exactly how the 3,000 copies were distributed throughout Canada, in the public libraries?

(Text)

Mr. ARMSTRONG: I do not have distribution with me but I will get it for you. Of the 3,000 copies I am sure some have gone to libraries. There would be a number kept by the queen's printer, for example, but I will be glad to get you the actual distribution.

The VICE-CHAIRMAN: We will now adjourn until eight o'clock tonight, gentlemen.

EVENING SITTING

TUESDAY, July 14, 1964.

The VICE-CHAIRMAN: Gentlemen, we have a quorum.

The paragraph that is now under study is number 64 of the 1963 report, national defence administrative regulations and practices.

I think Mr. Henderson would want to give some explanation in respect of these paragraphs.

Mr. HENDERSON: Mr. Chairman, these paragraphs outline instances observed where in the opinion of myself and my officers the application of administrative regulations relating to the armed forces have resulted in needless or uneconomical expenditure, or were otherwise unsatisfactory from the audit point of view.

We drew all these cases to the attention of the department.

Mr. WINCH: Is this the 1963 report?

Mr. HENDERSON: It is paragraph 64 of the 1963 report at page 35.

In accordance with past practice we drew the attention of the department to these and the services concerned have taken appropriate action to obtain amendments of the regulations or otherwise correct the situation except in the cases which are listed here, on which, in our opinion, action has been overdue. However, I am pleased to be able to tell you that in many of the cases here action has been taken by the departments since my report was tabled in the House of Commons.

I am going to ask Mr. Millar, my audit director in charge, who is here with me, if he would just tell you what action has been taken in respect of each of the paragraphs here excluding, of course, the one on lease termination payments, which we discussed this morning.

Mr. MILLAR: In regard to item 1, rehabilitation leave for former members of British and other commonwealth forces, on questioning this, we were informed that the services have proposed that in any such case in the future the period of rehabilitation leave, on which entitlement is based, should be reduced by the period of termination leave granted on completion of the previous service.

The Queen's regulations were amended, effective January 22, 1964, in the form of the proposal outlined.

In respect of item 2, release from service through purchase, the Queen's regulations since have been amended to provide for "other ranks" in the army to purchase their releases according to the rates prescribed. Thus, the army practice is now consistent with that of the other services.

In respect of item 3, removal expenses—mobile homes, the services issued movement orders in 1963 providing for safeguards designed to prevent abuse. The department stated in December, 1963, that these revised procedures would have to be tested and it was estimated that a year's experience would be required before their effectiveness could be assessed. Consequently, a new system designed to regulate claims for the movement of mobile homes will not be introduced until these procedures have been tested.

Item 4 deals with rehabilitation leave, misconduct and inefficiency releases. The Queen's regulations were amended in January, 1964, in regard to the reasons for release. The department considers that the regulations as amended will prevent further likelihood of conflict between the reasons stated by the services themselves and that established by the services pension board. Time will tell whether this is a correct assumption.

Item 6 deals with medical examination of militia recruits for the national survival training program. On April 3 it is understood the surgeon general issued instructions that payments would be limited to \$100 for any one day.

Item 7 deals with excessive payment of foreign service allowances. This was an isolated case, I might say, and it was reported as an instance of unnecessary expenditure. All services were advised by the deputy minister, in March 1964, to take the necessary steps to ensure that postings of this nature are authorized only where the arrangements are such that additional costs to the department are not incurred.

Item 8 deals with clothing credit allowances. The departmental file shows that in April, 1964, the associate minister directed that amendments be made to the regulations to preclude the crediting of these allowances during rehabilitation leave. However, such amendments have not, so far as I know, been promulgated to date.

Mr. WINCH: I have only one question to ask the minister in this respect. Under item 8, why is it the order has not been promulgated?

Mr. ARMSTRONG: Well, this is in the process of being drafted and the appropriate regulations developed. Although I cannot say precisely I think it will be promulgated very shortly. This involves an amendment to the Queen's regulations which has to go to the governor in council for approval.

The VICE-CHAIRMAN: Have you a question, Mr. Hales?

Mr. HALES: I have a question in respect of item number 3 of page 35 of the 1963 report. Half way down the paragraph it says:

A test examination of accounts during the year disclosed a number of instances where, through the submission of fraudulent receipts and the concealing of inadmissible costs, servicemen had been substantially overpaid,...

Could the Auditor General or Mr. Millar give us the most glaring example in this case, and what do you mean by the words "substantially overpaid"? I realize it might take some time to look that up.

Mr. MILLAR: Yes, we will look it up.

The VICE-CHAIRMAN: While Mr. Millar is looking that up, if any other member would like to put a question I will entertain it at this time.

Mr. BERGER: Mr. Chairman, I have one question in respect of item 1, rehabilitation leave for former members of British and other commonwealth forces.

For my own benefit and the veterans in my riding who are mostly French—although this is not a question which pertains to French or English—I would like to know if the same system prevails today as did during the war. For instance, a friend of mine was a lieutenant in Canada and when he left Canada and when he went overseas he went down to a corporal. I want to know if there is a new system in existence now which provides that when a Canadian officer is commissioned in Canada it is valid all through the commonwealth. I do not know whether or not I have made myself clear. I have received many complaints to the effect that they leave here as majors and land over there as lieutenants. Although the reverse may happen it does not happen very often. As I say, I would like to know, when officers are commissioned in Canada and they go to Cyprus or Egypt, if their commission is valid. Is it valid anywhere?

Mr. ARMSTRONG: When they are commissioned in the Canadian forces their commission is valid anywhere.

Mr. BERGER: But, this problem occurred before during wartime. There were cases where officers left here as captains.

Mr. ARMSTRONG: During the war, of course, some of the officers reverted in rank in order to go overseas. That was the situation that applied during the war, but it does not apply in peacetime.

Mr. BERGER: I know that and I can understand it. Returning to item No. 1—I have the French version here and I am a lot more familiar with French—

(Translation)

The VICE-CHAIRMAN: You may speak in French if you wish.

Mr. BERGER: Yes. Because I have the article in French here. The rehabilitation leave for former members of the British forces and other Commonwealth forces is something I appreciate very much, but I do not quite understand to what extent our own officers are protected. I would like to know. I know they are protected, but have the regulations that existed in wartime been changed so that in peacetime our officers, whether they are French, English, Italian or other Canadians, are protected to the same extent, enjoy the same advantages in any Commonwealth country under section I. Is my question clear enough or do you think I should add further explanations?

(Text)

We had to suffer from that before, and that is why I wanted to know how we are protected and who is protected. I am not anti-British, but it is just the phrase "British or other commonwealth forces" which mixes me up a little bit. I am speaking only of Canada.

Mr. ARMSTRONG: This applies, of course, to men who are members of the Canadian forces. It simply provides that if they had service in a commonwealth force as a member of Her Majesty's forces, then that service under certain circumstances may be computed towards their rehabilitation leave. The same thing applies in terms of pensions. Under the Pension Act they may count certain service; but here, of course, under these regulations this applies to the members of the Canadian forces and we do not govern what happens if a Canadian joins a force of another country?

Mr. BERGER: That is what I had in mind. I was just speaking as a true Canadian. I have an answer to my question. These are not just French, Italian or British; all are covered in this.

Mr. ARMSTRONG: Yes.

(Translation)

The VICE-CHAIRMAN: Mr. Rondeau, please.

Mr. RONDEAU: On section 2, release on forfeiture, we are shown that the Army, the Navy and the Air Force got \$100,000 back on advance payments. Lower down—and we are not told whether it is for the Army, the Air Force or the Navy—there are amounts that have not been recovered in the same circumstances. We are told about amounts that have not been recovered, but we are not told what amounts should have been recovered but have been lost.

(Text)

Mr. ARMSTRONG: These regulations provide that a man, if he requests release in the course of an engagement, is required to pay a certain sum of money. During the Korean war in 1950 the army dropped that regulation because they did not want to have a provision whereby a man could buy his way out of the service. Periodically since, they have reviewed this and up until the present time they have not thought it advisable to reinstate it.

I might give you an example which I think would be of help in answering the question. In 1963, there were 325 men who paid for their release from the air force. There were 693 who left on request, but who were not required to pay for their release. At that time, in the army, because they did not have in force the purchase of release, none was released on payment. There were 409 released on request who did not pay. In the Royal Canadian Navy, four were released on purchase and 69 on request who did not pay.

In dealing with this regulation governing a release by request, if the circumstances are such that it is felt that it is in the interest of the service to accept the release, perhaps on compassionate grounds or on a variety of other grounds, the services would release a man without payment. However, if they feel the circumstances are such that they should not release a man before his engagement expires and he nevertheless wishes to be released, and was not on active service, or in an emergency, then he can buy his way out. That would be applicable in respect of the 325 cases in the air force. In the army, however, of course they do not permit any to do this, and none was released on that ground. Does that answer your question?

Mr. BERGER: Do I understand from what you have said that from now on this matter of buying your way out is not applicable?

Mr. ARMSTRONG: No. Mr. Millar said that from now on all three services would apply these regulations. He is just a little ahead of me on this. I had not thought the final decision had been made. It is under consideration, I think undoubtedly the army from now on will decide to apply the regulation.

I would like to make clear that the reason they have not applied this regulation was that they did not want to make it available to men in the service to buy their way out. They preferred not to do this and, as you see, the actual number of releases in the army in total in 1963, by request, are less than in the air force, although perhaps the circumstances are different.

(Translation)

The VICE-CHAIRMAN: Have you finished Mr. Rondeau?

Mr. RONDEAU: The amount of \$100,000 recovered from members of the Air Force or the Navy includes the total amount received from those who paid to be discharged.

(Text)

Mr. ARMSTRONG: That is right. The regulation dealing with this provides that if release is applied for within three months of an initial engagement or subsequent re-engagement, the man will be required to pay \$100. If his release is applied for after three months of an initial engagement, or subsequent re-engagement, he is required to pay \$340, reduced by \$5 for each month in excess of 12 months that have elapsed on his engagement. Therefore, he has a minimum of \$240, or a minimum of \$100 when he requests his release if he wishes to buy his way out. Of course, the significance is that in essence the man has a right to get out by payment of that amount. This does not apply in an emergency; in an emergency he does not have that right.

(Translation)

Mr. RONDEAU: Have your department suggested to the Army—you express a doubt here, at the end of paragraph 2—that they should use the same procedure. You say you do not understand why the Army have not yet applied the same regulations?

(Text)

Mr. ARMSTRONG: I am sorry if I gave you that impression. I said that the army did not apply it. They did not apply it because they did not wish to have the provision in the regulations which gave the man the right to buy his way

out. This decision was taken, as I have said, during the Korean emergency, and one could well understand why it would not be applied at that time. In subsequent reviews, having regard to the requirements of the various United Nations' forces and so on, they confirmed that decision. But at the present time it is being reviewed again. While a decision may have been taken, Mr. Millar—I checked on it just recently, and while it appeared that the army had now come to the conclusion that it would recommend reinstating it—I was not aware that it had actually been reinstated. This is a regulation, incidentally, which is approved by the minister.

The VICE-CHAIRMAN: Now, Mr. Choquette.

(Translation)

Mr. CHOQUETTE: Mr. Armstrong, under item 3 concerning removal expenses, it is stated that some military personnel who submitted false receipts and concealed unacceptable expenses received considerably more than they were entitled to. Have the amounts that were dishonestly obtained been recovered?

(Text)

Mr. ARMSTRONG: In many cases they have. Each of these schemes has been or is being investigated. In a number of them the fact that the claim has been fraudulent has been established, and in those cases recovery has been made. There were some in which it was not established, and recovery was not made in those cases. And there are a few which are still being investigated.

The VICE-CHAIRMAN: Now, Mr. Henderson.

Mr. HENDERSON: Mr. Hales asked a question earlier similar to the one which Mr. Choquette just posed. I have here a list of some of the types of cases I think he was asking for. Do you wish me to give you a quick run down of them?

Mr. HALES: If it is not too long.

Mr. HENDERSON: It deals with the cost of towing mobile homes. Disciplinary action has been taken against a number of servicemen and commands.

In the first instance it had to do with a move from Victoria to Ottawa, the cost of which was \$1,550.

My officers felt, in examining this case, that the weight of the trailer was understated, thereby inflating the cost of movement of furniture and effects—in other words, the cost of movement was more than offset. This led to the recovery of \$618.30, and the serviceman was awarded a disciplinary caution.

The next case involved a move from Picton, Ontario to Ottawa at a cost of \$315. My officers questioned this claim, whether or not the mileage rate charged was in agreement with filed tariffs of the company. Investigation showed only \$40 and \$50 had been paid for packing and towing. This led to the recovery of \$245, and the serviceman was sentenced to a reprimand.

The next case was a move from Calgary to Valcartier at a cost of \$1,660. Here again my officers questioned the weight, on the basis that the average weight for a serviceman with three dependants is 4,500 pounds. Investigation revealed that the mover was paid only \$1,000. The Quebec command is being directed to take disciplinary and recovery action.

Another case involved furniture and effects weighing 8,760 pounds, which were moved as the contents of a mobile home. No paid invoice or relative weight scale certificate accompanied the expense claim. This led to the recovery again of \$340.76.

In the next case the contents weighed over 9,000 pounds. Investigation showed that a receipt from the mobile home hauler was procured showing a rate ten per cent in excess of the rate per mile normally charged. The officer was again assessed a fine of \$50, and \$270 was recovered.

The next categories I have are those in which fraud was not suspected, and no disciplinary action was taken.

The first claim was for \$997.06. This we questioned, but investigation showed it to be a realistic weight, and below the allowable cost.

Another case was the moving of a mobile home from Greenwood, Nova Scotia to Cold Lake, Alberta, with a claim for \$1,419. Again the weight was questioned, but no fraud was suspected.

There are several more cases of a similar nature under this heading.

The next category is where there is a lack of concrete evidence which prevented further investigation in a number of cases. I shall not bore you with the particulars of them, but it does perhaps serve to show the type of verification which we seek to bring in our test examinations.

I have a list of other cases which are still under investigation. Does that furnish you with the type of information you seek?

Mr. HALES: May I ask Mr. Armstrong whether in view of all these cases which have been brought to our attention, they have changed or tightened up their regulations?

Mr. ARMSTRONG: As Mr. Millar said, we have issued a revised set of regulations covering the movement of home trailers and furniture. We believe that those are satisfactory. I have gone over them very carefully myself, and I think they are very sound. But it does not mean necessarily that there may not still be attempts at fraud. We will probably have cases in the future where people endeavour occasionally to claim for more than they should. But I believe the regulations themselves are sound. We shall see in another year of experience how well they work.

Mr. HALES: I have one more question. With respect to this first case in connection with the move from Victoria to Ottawa with an expenditure of \$1,550, what officer would O.K. that expenditure for payment?

Mr. ARMSTRONG: The officer who would approve this would be the local commanding officer. But he would have an expert there on moving expense who would deal with that particular case.

Mr. HALES: Would he not make any investigation or any check on it before he would sign the voucher for payment?

Mr. ARMSTRONG: Yes, he should make a check on this case, certainly.

Mr. HALES: But it has been overpaid by \$618, so he did not check too closely.

Mr. ARMSTRONG: I suppose it is self-evident, in a sense, that he overlooked this particular case at any rate.

Mr. HALES: Would this particular officer be notified about it?

Mr. ARMSTRONG: Oh, yes.

Mr. HALES: Would he be notified by someone in the department?

Mr. ARMSTRONG: Oh, yes, he would be made aware of this case. In fact part of the investigation would encompass him. I have a copy of the regulations as they stand today, and if the committee are interested in them I would be very glad to leave them. These are the new ones which have been issued.

The VICE-CHAIRMAN: If the committee wishes they can be tabled and included in the report. Is it agreed.

Agreed.

Mr. FRANCIS: In connection with item No. 2, "Release from Service Through Purchase", does this relate to people who have taken training, for example, under the university training program?

Mr. ARMSTRONG: No. This applies to members of the regular forces. This applies to men, not to officers, who are engaged for a period of time, three

years, or five years, and if they wish to be released from their engagement before the expiry of the engagement.

Mr. FRANCIS: I notice this was an ancient practice of the armed forces but I was not aware it was still prevalent to this degree.

Mr. ARMSTRONG: As you see from the statistics that I gave you, the majority of release on request are not by purchase, even though the regulation applies.

Mr. FRANCIS: Is there any reason to believe that there will be uniformity of practice between the services in the future?

Mr. ARMSTRONG: If I might answer that, there will be uniformity of practice, but the point that I wanted to make here was that in so far as the army was concerned there was a reason for not applying this namely, this practice lasted throughout the Korean war and their release thereafter. I think it was a valid reason, that it was preferable, in their circumstances, not to have a regulation under which a man was entitled to buy his way out of an engagement. It did not mean he could not get out on request if the army agreed that the circumstances were such that it was appropriate to let him go, but he did not have the right to buy his way out.

Mr. FRANCIS: I missed the point at that time, that apparently by not engaging in the practice the army was able to exercise more restraint.

Mr. ARMSTRONG: That was the object in removing the application of this regulation.

(Translation)

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: Under item 5, amounts refunded to military personnel for cancelling a lease, it is stated that an amount of \$500,000 is paid each year for cancelled leases. It is also mentioned that the R.C.M.P. use the formula of 30 days' notice of cancellation and that the Public Accounts Committee of 1961, at paragraph 52, suggested that this maximum period be used, that is that the maximum period should be reduced to 30 days' notice—one month—and at the bottom of the fifth paragraph I see that the general practice was continued. What is this general practice of paying three months rent to cancel a lease when it had been suggested that leases should be cancelled on one month's notice.

The VICE-CHAIRMAN: That matter has been discussed several times this afternoon, Mr. Rondeau, but I think Mr. Armstrong would nevertheless like to explain it to you.

Mr. RONDEAU: I am sorry, I would...

The VICE-CHAIRMAN: That is all right, I have no objection, please continue.

Mr. CHOQUETTE: If my honourable colleague will consult this afternoon's evidence...

(Text)

Mr. WINCH: We entered into this discussion this afternoon in great detail.

Mr. RONDEAU: I am sorry. I will read the answer you gave this afternoon on this item.

The VICE-CHAIRMAN: The next paragraph is paragraph 65, which reads:

65. *Educational costs incurred by the Department of National Defence.* In the 1962 report (paragraph 75) comments were made regarding costs incurred by the Department of National Defence, under executive authority, for the education of children of servicemen and entitled civilians residing in publicly-owned quarters. It was mentioned

that, although the educational costs for each fiscal year are not reflected as such in the public accounts, the department prepares statements on a memorandum basis for calendar years. The statement for the calendar year 1962 shows a total expenditure of \$16,365,000, offset by provincial grants received to a total of \$2,811,000, or a net expenditure of \$13,554,000. The expenditure total includes \$1,276,000 of outlays for new construction but does not include the cost of transportation by service vehicles, furniture and equipment provided from service stocks and maintenance supplies and services provided from service resources, nor any portion of the cost of headquarters administration.

It was noted last year that the over-all pupil-teacher ratio in the departmental elementary schools was about 22 to 1—well below the average ratio for such schools in Canada generally—and the comment was made that the department had undertaken to make enquiries into the pupil-teacher ratios at schools where the ratio was less than 25 to 1. A test examination of the pupil-teacher ratios for the 1963 fiscal year indicated that there had been only slight improvement during the year in this regard.

Audit examinations at selected departmental schools in Ontario indicated that there had been unsatisfactory control over the computation of grants recoverable from the provincial department of education and in some cases claims had not been made in respect of outlays which were eligible for grants. It was also observed that, in certain cases, expenditures for such items as transportation and textbooks exceeded amounts considered by the department of Education as adequate. It was suggested to the Department of National Defence that the matter be reviewed in order to ensure that all grants to which it is entitled are recovered and to establish a means whereby claims for grants may be adequately controlled to avoid losses in the future. We have been informed that such a review is currently taking place.

Our audit also disclosed that dependent children of servicemen stationed at the R.C.A.F. station, Bagotville, Quebec, and living in nearby communities, attend departmental schools located on the station as the local governments do not provide educational facilities for the tuition of the children although the servicemen pay taxes, and they and their families constitute significant elements of the communities. In consequence, the department is absorbing education and transportation costs for an estimated 192 pupils living "off base", and this situation was drawn to the attention of departmental officers. It was noted after completion of the audit that a submission to treasury board in August 1963 for authority to enlarge the station schools by six additional classrooms to provide accommodation for these dependent children living "off base" was not approved pending further discussions with the provincial authorities with a view to obtaining their participation in providing and meeting the cost of the six classrooms required.

(Translation)

The VICE-CHAIRMAN: Would my French-speaking colleagues like me to read this in French, is it necessary?

Mr. BERGER: No.

The VICE-CHAIRMAN: Because I would have to look for the report in French if you want to have it in good French.

Mr. BERGER: On a point of order, Mr. Chairman, I agree that the established procedure should be followed because, as a newcomer, I may be somewhat inexperienced, but it seems to me that at 5:50, at the end of a meeting, we were dealing with a matter that interests me more than the others, with

section 115 of Mr. Henderson's report for the financial year 1962. We dealt with it briefly, and I thought we would revert to it this evening because I have some questions I would like to ask. Have we finished with that matter? If we have I will not mention it again.

The VICE-CHAIRMAN: I think so. Maybe we have not, but I think we finished it at 5:50.

Mr. BERGER: With all of section 115?

The VICE-CHAIRMAN: I think so. If that is not the case I could—

(Text)

Mr. BERGER: I did not want to ask the questions then because everyone wanted to leave the committee, so that when my friend, Mr. Choquette, asked his questions, I stopped at that point. I thought we would revert to that paragraph when we came back. However, it is not that important. I will ask Mr. Henderson my questions after the meeting or at another time. That will save time. It is just information I need for printing purposes.

The VICE-CHAIRMAN: We are now on paragraph 65.

Mr. HENDERSON: This paragraph, Mr. Chairman, deals with the subject on which I have commented in my 1962 report regarding costs incurred by the Department of National Defence for the education of children of servicemen and residing civilians in publicly-owned quarters. My comment here is not so much a criticism of the departmental practices as it is designed to provide information showing the size of this particular expenditure and at the same time the low average ratio of attendance in the schools. We made selected test examinations of departmental schools and, as I indicate at the top of page 38, we did have some suggestions to make to the department in order to ensure that all grants to which it is entitled are recovered and to establish a means whereby claims for grants may be adequately controlled to avoid losses in the future. We understand that such reviews are taking place.

We then have a further comment that we make concerning the R.C.A.F. station at Bagotville. I do not know whether Mr. Armstrong would like to add anything to this comment.

The VICE-CHAIRMAN: Maybe Mr. Armstrong would like to answer questions if there are any. Are there any questions on this?

We will go on to paragraph 67 because paragraph 66 was taken up this afternoon together with paragraph 82 of the 1962 report.

Paragraph 67 reads as follows:

67. *Assistance to provinces by the armed forces in civil emergencies.* Section 35 of the National Defence Act provides for the employment of the armed forces when the governor in council has declared that a national disaster exists. Although the act makes no provision for the use of the forces in emergencies not thus declared national disasters, the Department of National Defence, on a number of occasions over the years, has rendered assistance to provincial authorities in circumstances not rated as national disasters. It is the general policy in such cases to grant assistance upon written request by the premier of a province, or by any member of his cabinet authorized by him for this purpose, with the province entering into a formal agreement to reimburse the government of Canada for all expenses to be incurred (except regular force pay and allowances) and to release the crown from liability for any loss or damage that might arise out of the rendering of assistance.

On four occasions in the summer of 1961 assistance was given to one province in fighting forest fires. In three of these instances provincial ministers signed agreements but in the fourth, contrary to the established practice, an agreement was not executed. In the course of these fire-

fighting operations the department incurred recoverable expenses in the sum of \$410,000, including a charge of \$59,000 for the use of a helicopter which was, in fact, lost in the course of one of the operations. The claim was not submitted to the province by the department until January 1963 and recovery has not yet been effected from the province.

In the course of our inquiry into this situation it was also noted that billings for smaller amounts in the case of two other provinces, relating to similar assistance in earlier years, had not yet been paid.

(Translation)

Mr. CHOQUETTE: Before going on to 67, could we find out what, . . .

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: Could we find out how many children, children of military personnel are getting their education at the expense of the Department of National Defence. Could you give us that figure?

(Text)

Mr. ARMSTRONG: The total number of pupils in Canada is 31,437, and overseas it is 7,411.

(Translation)

Mr. CHOQUETTE: Would you have the exact number for each province. Of course we are particularly interested in the province of Quebec. I would like to point out that this is important especially as it is being stated so forcefully that education is under the exclusive jurisdiction of the provinces; in that case this field of jurisdiction is being invaded by the federal government.

(Text)

Mr. ARMSTRONG: I have a breakdown here and I can pick it out for you quite readily. Regarding the schools in the province of Quebec, specifically at Valcartier camp, there are 202 Protestant pupils.

(Translation)

The VICE-CHAIRMAN: Just a second please. Mr. Choquette, do you want to have that information separately?

Mr. CHOQUETTE: No, I would like to have the total figure for Quebec.

(Text)

Mr. ARMSTRONG: I can add them up for you. I have them by schools here.

(Translation)

The VICE-CHAIRMAN: Perhaps Mr. Armstrong could add that up and give you the figure a little later on.

Mr. CHOQUETTE: Yes, that would be fine, if . . .

(Text)

Mr. SOUTHAM: May I ask a supplementary question on this paragraph, Mr. Chairman?

I note Mr. Henderson mentions here that the over-all pupil-teacher ratio is about 22 to one, and he then makes the comment that this is well below the average ratio for such schools in Canada generally. Have you any idea what ratio this is? I am asking this just for information.

Mr. HENDERSON: I do not know that I have the precise rate to hand. We understand it is well below the average rate.

Mr. SOUTHAM: You make the comment "well below the average ratio for such schools in Canada generally." I was just wondering what this was; I am seeking information in order to keep this comment in perspective.

Mr. MILLAR: I think the average is 22 to one.

Mr. SOUTHAM: As I understand it, that is the average in the service schools but it is said that this is well below the Canadian average.

Mr. ARMSTRONG: The current average in national defence schools in Canada is 23.6, with the exclusion of British Columbia, and in British Columbia that province, as you know, operates our schools for us; and there it is higher, it is 25 to one.

Mr. HENDERSON: We understand the average rate for Canada to be in the order of 35 to one.

(Translation)

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: To what do you attribute the difference between the schools of the armed forces and the average of other schools. Have your department discovered the reason why there is such a difference?

(Text)

Mr. ARMSTRONG: I have not heard the figure of 35 to one. It surprises me a little, but perhaps that is the average. In most of our schools, the rooms are built to accommodate about 30 pupils. However, there are certain special problems in the Department of National Defence in the sense that at some of our stations the number attending schools is relatively small and, therefore, it is difficult to maintain a maximum ratio or maximum desirable ratio of teachers to pupils. The lowest ratio we have is at a school in British Columbia, where the ratio is one to seven. They only have seven pupils at that school. In a number of our schools on the Pine Tree line the number of pupils is in the area of 60, 70 and something of this order. Consequently, the pupil-teacher ratio tends to be high. This is also true in the secondary schools where it is necessary to provide teaching of a number of specialized subjects in the high school curricula, and the number of pupils tends to be small and therefore the ratio of pupils to teachers tends to be lower than one would find in a large elementary school in a city, for example a city such as Ottawa.

Mr. BERGER: Mr. Armstrong, may I be allowed to pursue what you have just said? Following your remarks and the recommendations that have been made in this report and the preceding ones, what is the departments' idea—and perhaps this is too personal a question—with regard to the practicability? Do you think it will work out eventually in the way in which it is mentioned in the report? I would just like to have an assurance on this. It is said here that it is being studied. May I have an idea of your personal view of the outlook of things?

Mr. ARMSTRONG: May I say in the first place that the department welcomes the audit review by the Auditor General. He has pointed out a number of things in connection with the operation of our schools that have been of real assistance to us. Following that survey we appointed an officer in the department to investigate our own system of handling things, and we are making certain changes. In particular, we are bringing together the administration of the system in our own headquarters. Before it had been distributed among the navy, the army and the air force. We do not think we have been getting, through this system of administration, as good a direction as is possible, and we hope this will improve.

We also have in the course of preparation a series of directions that should be of assistance to various school committees in ensuring that they claim appropriately where it is possible to obtain grants from provinces to assist in the educational costs. The ideal situation from our point of view in running these schools would in fact be to turn them over to the provinces, as we do in the province of British Columbia. We have an agreement with the

province of British Columbia under which we pay the average cost of education in that province.

Mr. BERGER: Are you sure, Mr. Armstrong, that this would not create new problems?

Mr. ARMSTRONG: It might create some new problems, but if the provinces were able to handle this, in our view that would be the best method of handling the situation. Not all provinces are able to handle it because their system of education differs, but as far as we are concerned the system in the province of British Columbia is ideal. They run schools for us and we pay them the average cost of the education of the pupils in that province, which amounts to \$25 per month, and they assume the responsibility. If this were possible in every province, I think we would certainly welcome it. Unfortunately, it has not worked out to be practicable in every province although we have asked every province to examine this possibility.

Mr. RYAN: Could we have a breakdown of the total expenditure of \$16,365,000 by provinces and also a breakdown of the provincial grants received to a total of \$2,811,000—by provinces?

Mr. ARMSTRONG: I do not have with me that information broken down in that way. I would have to get it, unless the Auditor General has it.

Mr. HENDERSON: I am afraid we have not that information here, Mr. Ryan, but it could be obtained and laid on the table for the minutes of the next meeting if you so wish.

Mr. RYAN: I would welcome it.

(Translation)

Mr. CHOQUETTE: Could that not be included in the report, because Mr. Ryan asked for the amounts spent in each of the ten provinces concerning the education of servicemen's children.

The VICE-CHAIRMAN: I think that could be added to the report. Did we ever ask it in the report?

Mr. CHOQUETTE: Then the details relating to each province could be included in the report?

Mr. BERGER: One additional question. Could each of the provinces be included?

The VICE-CHAIRMAN: One moment, please. Before we answer that question—

(Text)

Would it be possible for you, Mr. Armstrong, to add these figures for the province?

Mr. ARMSTRONG: The figures I was going to obtain for Mr. Choquette would merely show the number of pupils; it would not show the cost.

The VICE-CHAIRMAN: But Mr. Ryan would like to have added to that the amount of money expended in each province.

Mr. RYAN: Expended and received per province.

Mr. CHOQUETTE: What could be added also is the number of pupils.

Mr. ARMSTRONG: In each province?

Mr. CHOQUETTE: Yes, not only the amount expended but the number of pupils.

(Translation)

The VICE-CHAIRMAN: What you asked for originally is...

Mr. CHOQUETTE: The number of pupils and the amounts spent in each of the ten provinces.

The VICE-CHAIRMAN: Mr. Berger.

(Text)

Mr. BERGER: My supplementary question is to ask Mr. Henderson if it would be possible to have included originally in the next report the type of information for which we are asking now. That would save a great deal of time because we would not be asking so many questions. Do you think it would be possible to have that information included in the report? The type of questions we are now asking would be unnecessary because we would have the right figures. Is it too much to ask that these be included in the next report?

Mr. HENDERSON: No, we could insert such a table in the report if that is what the committee would like, Mr. Berger. However, I would not ordinarily place such information on the record in my report to the House of Commons unless it were a subject on which I might have some critical comment. This would normally be something, I think you would agree, that the department should furnish. If I may say so, I think the most practical thing is—if Mr. Armstrong agrees or if we could obtain the figures—for us to bring to the next meeting a schedule breaking down the total expenditure by provinces and perhaps in another column show the number of pupils.

Mr. BERGER: That would be satisfactory information for the committee members.

Mr. HENDERSON: Yes, and that information could be tabled as an appendix to the minutes.

Mr. BERGER: That would suit me very well.

Mr. FRANCIS: Mr. Chairman, I should like to refer again to paragraph 65 and the note therein that there was a submission in August of 1963 for authority to enlarge station schools by six additional schoolrooms at Bagotville, Quebec. I am curious to know what happened in this regard. I understand there are 192 pupils and presumably this submission was not approved. What has happened since that time? Are these children not going to school or are they in overcrowded classrooms?

Mr. ARMSTRONG: I should be able to answer that question. Obviously, we have made some temporary arrangements for accommodation. In Bagotville we now have an agreement with the Roman Catholic school board whereby we are reimbursed the costs in relation to these pupils who are living in Bagotville and paying rent.

Mr. FRANCIS: Was this agreement negotiated subsequent to the report being prepared?

Mr. ARMSTRONG: This is not mentioned in the report but it perhaps was negotiated subsequently. We do not have any arrangements in respect of Protestant children because there is no school board in that particular area for that purpose. I do not know that we will be successful in making any arrangement which will work. These children of course go to school on our base.

Mr. FRANCIS: Is this a unique situation?

Mr. ARMSTRONG: I think it is an exceptional situation but I would not say offhand that it is a unique situation because we may have somewhat similar circumstances existing in one or two other places.

Mr. FRANCIS: The reason I ask this question is that of my concern in the event there is any substantial number of children possibly being deprived of educational opportunities.

Mr. ARMSTRONG: Do not misunderstand me, Mr. Francis. No children on our bases are being deprived of educational opportunities because we would make arrangements in one way or another to accommodate them.

Mr. FRANCIS: That is the answer I was seeking.

The VICE-CHAIRMAN: You will realize that we unconsciously reverted to paragraph 65. I am going to allow Mr. Henderson to make one further comment in this regard and then proceed to paragraph 67 which has been called.

Mr. FRANCIS: You are a little bit quick in pointing that out, Mr. Chairman. You will excuse me if I have not quite kept up to you, but I did want to ask that question.

The VICE-CHAIRMAN: If there is one statement on the record that should not be there because it is incorrect it is the statement that I am quick.

Mr. FRANCIS: We are old associates.

Mr. HENDERSON: I should just like to say that on June 24, or less than one month ago, a request for additional classrooms to accommodate the off base students was withdrawn. The R.C.A.F. had requested authority from the treasury board to build eight new classrooms to replace the present eight temporary classrooms and the Bagotville and surrounding communities have acknowledged their responsibility for the cost incurred of educating the children of R.C.A.F. parents residing in their community. I thought I might mention that information for the benefit of the members of this committee.

The VICE-CHAIRMAN: Thank you, Mr. Henderson.

Can we now move to clause 67 again, assistance to provinces?

Mr. HALES: In respect of paragraph 67, I note it involves the department of National Defence rendering assistance to provinces in the event of a national disaster such as forest fires. I note the Department of National Defence helped one province on four different occasions and that it is customary to have the minister sign an agreement on each occasion. In this case the department failed to have one agreement signed. I should like to know first of all the name of the province involved and, second, why was the claim not submitted until two years later, in 1963, and why the money has not been paid by that province as of this date.

Mr. HENDERSON: Mr. Millar has the information available, Mr. Hales, and I will ask him to give it to the committee.

Mr. CROUSE: Mr. Chairman, apropos of that question, there is a note appearing in this paragraph to the effect that billings for smaller amounts in the case of two other provinces, relating to similar assistance in earlier years, has not yet been paid. Would you also give us the names of those two provinces?

Mr. MILLAR: The first item involves Nova Scotia in November, 1958, during the second emergency at Springhill and amounted to \$17,070.30. Item 2, September, 1960 involved Shelburne forest fires and amounted to \$60,102.30.

Item B involved Prince Edward Island in August, 1960 and was in respect of forest fires and amounted to \$43,014.10. Item C is in respect of Newfoundland, occurring in the summer of 1961, in respect of forest fires involving an amount of \$66,149.36. Item No. 2 occurred in the summer of 1961 in respect of forest fires and involved an amount of \$344,245.97.

Mr. HALES: Why would your department omit to have one of these agreements signed, and why was the claim not submitted until 1963, two years later?

Mr. ARMSTRONG: There were two agreements here that were not signed. One involved Prince Edward Island in August of 1960, and the other involved assistance in respect of forest fires in Newfoundland in the summer of 1961.

In the first case involving Prince Edward Island, we did receive a telegram from the appropriate provincial authorities asking us to provide assistance. When the agreement was subsequently put to them they declined to sign it.

In the case of Newfoundland, the government was asked to provide assistance but the agreement when it was put forward was not signed.

Mr. HALES: Why was the claim not submitted until two years later?

Mr. ARMSTRONG: I think there were one or two reasons in this regard. As I recall it, in that particular situation one of the helicopters being used was destroyed in the course of rendering the assistance requested. We did take some time considering the appropriate policy to be applied in this respect. We finally came to the conclusion that the best arrangement would be to charge, for an aircraft of this kind, and include in the flying hour charge an element against attrition, so that a province would not be billed for the total cost of an aircraft that happened to have an accident and destroyed in a particular situation in which it was involved. That consideration took a considerable period of time, but eventually bills were submitted in 1963.

Mr. HALES: The \$410,000 includes the cost of the helicopter; is that right?

Mr. ARMSTRONG: That figure does not include the cost of the helicopter but includes in the cost a factor for attrition.

Mr. HALES: This case happens to be one for which you did not have a signed agreement; is that right?

Mr. ARMSTRONG: We do not have a signed agreement in that regard, no.

Mr. HALES: You are not now in a position to claim that money without a signed agreement; is that right?

Mr. ARMSTRONG: I do not think it necessarily follows that we are in no position to claim the money because we were requested to provide the assistance.

Mr. HALES: If we take a legal point of view and you cannot produce a signed agreement you will not be able to collect the money; is that right?

Mr. ARMSTRONG: This, of course, would be something one would have to decide by recourse to law, but I feel that would not be the case.

Mr. HALES: The amount involved is quite sizeable. Does this type of thing happen very often, whereby federal government accounts are not paid by provincial governments?

Mr. ARMSTRONG: These are the cases listed and the only ones outstanding. We have not been successful in collecting them but have referred them to the treasury board for direction.

The VICE-CHAIRMAN: Mr. Hales, this appears to be a delinquent account because an official request has been made to the appropriate authorities.

Mr. HALES: The department does not have a signed agreement in this regard.

The VICE-CHAIRMAN: The department does not have a signed agreement, but if a request is made by a responsible person such as the premier of a province, to the Prime Minister of Canada, I would assume that would be equivalent to a signed agreement. Are there any further questions in respect of paragraph 67?

Mr. WINCH: Just one. Although I never have understood this I am most intrigued by it. Is there a definite policy established whereby in the event of necessity a province asks the assistance of the federal authorities and the use of armed forces, as was the case in respect of a forest fire that happened three or four months ago in Port Alberni, the province is charged for the use of those armed forces?

Mr. ARMSTRONG: We have a definite procedure and all the provinces understand it. The charges that are made in these cases represent, in effect, the out of pocket costs. We do not charge, for example, the regular pay and allowances that we would be paying in any case. But, if it involves the use of equipment, gasoline, oil, materials and so on, or paying extra allowances of one sort or another, we charge the province for it.

Mr. WINCH: Would that apply in the case of Port Alberni? I am referring to the wave caused by the earthquake, at which time you had to move in a battalion of engineers from Chilliwack to Port Alberni.

Mr. ARMSTRONG: Yes. They will be charged for that. There is no question but that they would be charged but, offhand I do not know the details of it.

The VICE-CHAIRMAN: If there are no further questions we will move to paragraph 68, pension awards effective at early age.

68. *Pension awards effective at early age.* For some years it has been observed that servicemen are being retired with immediate annuities at early ages—in some cases under 30. In such cases the amounts of the annuities are small due to the short periods of service, but the potential cost is substantial because of the long expectancy of life. In the year under review, 201 servicemen aged 40 and under were retired with immediate annuities.

The Public Service Superannuation Act provides for deferred annuities payable at age 60 where persons retire prior to the specified minimum retirement age—except in cases of disability, when immediate pensions are awarded. The department has been conducting a general review of benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act.

The VICE-CHAIRMAN: Would you care to comment on this paragraph, Mr. Henderson?

Mr. HENDERSON: I drew this situation to the attention of the house on previous occasions in my reports.

In 1962, the royal commission on government organization referred to it. As you will see from the note, the Public Service Superannuation Act provides for deferred annuities payable at age 60 where persons retire prior to the specified minimum retirement age, except in cases of disability, when immediate pensions are awarded.

The Department of National Defence, as I understand it, has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act.

Perhaps Mr. Armstrong is in a position to bring the committee up to date on this matter.

Mr. ARMSTRONG: Mr. Chairman, we have been reviewing the existing provisions of the Pension Act, including the question of whether or not we could provide a deferred annuity. So far in this review we have developed a couple of possible alternative plans which would enable us to do this; but, the cost of these plans would be more than the cost of the existing plan. In the one case, where we examined the possibility of providing a deferred annuity which would become payable at the normal retirement age of the person or man concerned, the cost, I think was about 3 per cent higher than the present cost, looking at it on the basis of a deferred annuity that would be payable at age 60, which is the same age as the superannuation act, and the cost, I think, went up about 1½ per cent. Now, we are continuing this examination. We feel that the present cost of the pensions, which run in total about 20.4 per cent based on the last actuarial report to which the individual serviceman contributes 6 per cent, is high enough and we are attempting to find solutions if, in fact, we can, which will hold the cost at the present level.

(Translation)

The VICE-CHAIRMAN: Mr. Berger.

Mr. BERGER: Mr. Armstrong, in view of the quite radical changes contemplated by the present government and the minister and associate minister of National Defence, for the integration of the three services will not section 68—allocation of pensions—include perhaps rather radical changes which it might be useless to study thoroughly at the present time in view of the procedures now under way? In order to be more precise, do you contemplate more complicated problems than those you have had until this moment? In my humble opinion, there seems to be nothing wrong with this section, but I am wondering if we should study it in relation to the proposed legislation, which seems to deal with the three services, or shall we proceed from the armed forces and the pensions which are extended to a fairly late age? In your opinion, should this matter be studied more thoroughly, or do you think that radical changes will be proposed?

(Text)

Mr. ARMSTRONG: I do not think the steps that are being taken now toward integration in themselves would affect the basic considerations in the pension plan. As has been indicated, there will be some retirements on account of reductions in establishments. Of course, those men will be retired under the existing provisions of the Pension Act. There has been one amendment made to those provisions, which you dealt with in the house the other day, which removed a penalty that applied to men with fewer than 20 years service. The general principle has been followed in dealing with pension acts in the past, that by and large new provisions would not apply to the people who are under the existing pension plan in any event.

Mr. BERGER: I thank you for your answer. I have some problems in my own constituency which I very gladly will submit to you personally when the time comes.

The VICE-CHAIRMAN: If there are no further questions in respect of paragraph 68 we will proceed to paragraph 70, overlapping of pension benefits.

Mr. HENDERSON: There is paragraph 69, discretionary awards of service pensions?

The VICE-CHAIRMAN: If you had noticed I called this paragraph twice and several people told me to proceed to paragraph 70.

Mr. FRANCIS: You are a little quick on that.

Mr. CROUSE: It is not on the list.

The VICE-CHAIRMAN: That is right; it is not on the list. Apparently it was left off the list but should have been included. Perhaps Mr. Henderson would care to give us a comment on this.

69. *Discretionary awards of Service pensions.* From the examination of the relative files it is apparent that, in determining pension awards, every possible consideration is given to the welfare of the individual serviceman and it is sometimes questionable whether a reasonable balance is struck between fairness to servicemen on the one hand and economy of public funds on the other. The following paragraphs illustrate the situation.

Two servicemen who had requested voluntary release before having qualified for pensions (in which event only refunds of contributions would have been payable) were refused. However, when the minimum period of service required to qualify for annuities was reached the men were retired compulsorily. In one of these instances, where contributions

had amounted to \$1,777, the capital value of the annuity awarded was \$29,900; and in the other, where contributions had amounted to \$2,320, the capital value was \$26,900.

In four instances where servicemen were awarded pensions, having been retired compulsorily as "medically unfit", information on file indicated that this reason was of secondary importance to others which, had they been assigned officially, would have resulted in substantially reduced annuities, with total capital values lower by more than \$27,000.

Two instances were observed where servicemen with essentially similar rank, service and military records were retired with materially different benefits. In one of these instances the serviceman, aged 40, was unable to resolve his domestic and financial problems and was considered by his unit to be unemployable. As no improvement resulted after repeated warnings, his discharge for misconduct was recommended, with pension benefits having a capital value of \$35,000. However, he was actually released "to promote economy and efficiency" on the basis of a decision by the service pension board and this decision established the man's entitlement to an immediate annuity with a capital value of \$53,700. In the other case, the serviceman, aged 43, regarded as an "administrative nuisance" because of his inability to control his personal finances, was awarded only a return of contributions amounting to \$4,111.

Under section 10(9)(c) of the Canadian Forces Superannuation Act "a female contributor who resigns or is compulsorily retired from the forces by reason of her marriage shall be deemed to have retired voluntarily from the forces", and such a contributor is then entitled to a return of contributions only. A case was noted where an airwoman with ten years' service was released in January 1962, the reason for pension purposes being finally determined as "to promote economy and efficiency" with the result that she became entitled to an immediate annuity. The original reason for the release had been determined by the service pension board as "misconduct", in which case a reduced deferred annuity would have been payable—and this had the concurrence of the treasury board. However, the service did not agree and made representations for a more generous annuity, the service pension board finally deciding that the reason for release was "to promote economy and efficiency", as mentioned above. The marital status of the airwoman changed when she married during the period of rehabilitation leave, yet this fact was not recognized in determining her final benefits, the department taking the position that the reason for release crystallized on the last day of service prior to rehabilitation leave. Consequently, instead of a return of contributions of \$1,950, she received an immediate annuity with a capital value of \$12,015.

Mr. HENDERSON: Paragraph 69 refers to cases which, in our opinion, represent questionable decisions; that is, whether or not reasonable balances can be said to have been struck toward payments to servicemen on the one hand and the economy of public funds on the other. Subject to your views on this particular reference to the case cited you may wish to question Mr. Armstrong about the matter.

The VICE-CHAIRMAN: Are there any questions in respect of paragraph 69?

Mr. FRANCIS: I find it hard to believe that an airwoman who is discharged with 10 years' service and gets married on her discharge should be entitled to the type of annuity in the amount which she received. I do not know what

your feelings are in this respect. Do you feel this is a correct position to take and are you prepared to defend this decision?

Mr. ARMSTRONG: The law provides that a female member of the forces who marries and is discharged because of marriage would receive the benefits that are payable on voluntary retirement; in other words, she would not get a pension. However, the pension board, which is set up by statute, determines the reason for retirement. This woman was not married at the time that reason was determined by the pension board and consequently the law which applies to a woman who is married did not apply to her. The reason for her discharge in these particular circumstances, as cited by the pension board, I think was to promote economy and efficiency under the law, and retirement on that ground results in a pension. I think I would agree with you, Dr. Francis, that in these particular circumstances it hardly seems to be in the spirit of the law as written in respect of married women, but this was the law.

Mr. FRANCIS: I appreciate that, but I wonder as a matter of policy whether the pension board could make a decision, say, at the end of rehabilitation leave, or make its decision effective at such a time in an effort to prevent what has been a circumvention.

Mr. ARMSTRONG: I do not think as a general policy that this would be good, because it is better to determine the pension arrangement before a person actually is dependant on the pension; in other words, before the end of the rehabilitation leave. In a case of this kind, obviously, I think one could deal with it by amending the law.

The VICE-CHAIRMAN: Are there any further questions on paragraph 69?

Mr. CROUSE: May I have a little further explanation of this statement at the bottom of page 40:

However, he was actually released 'to promote economy and efficiency' on the basis of a decision by the service pension board and this decision established the man's entitlement to an immediate annuity with a capital value of \$53,700.

I must confess that I am not entirely familiar with that term "immediate annuity with a capital value". Would you explain that?

Mr. HENDERSON: That is what the pension was calculated to cost over the expected life of the man, based on actuarial tables.

Mr. CROUSE: That is a payment of how much a year?

Mr. HENDERSON: I do not know how much the pension is per annum. It would be in the order of \$2,000 or \$2,400.

Mr. CROUSE: He served for how many years?

Mr. HENDERSON: He was age 40, so he would have a life expectancy of 30 or 35 years.

Mr. CROUSE: But how many years had he served?

Mr. HENDERSON: His pension would be based on that. I do not see it here.

Mr. ARMSTRONG: I think in this case he had 18 years service, if I have the right case.

Mr. SOUTHAM: In this paragraph there is the statement:

Two instances were observed where servicemen with essentially similar rank, service and military records were retired with materially different benefits.

This is the one Mr. Crouse mentioned. One was awarded a pension having a capital value of \$35,000 and the other was awarded a return of contributions amounting to \$4,111. I would like to ask Mr. Henderson why there was such a variation in the benefits when the two had essentially the same service?

Mr. HENDERSON: I show these two cases to illustrate the point of the paragraph. In the first case you have the serviceman aged 40 who was considered by his unit to be unemployable, and his discharge for misconduct was recommended. However, actually he was released to promote economy and efficiency on the basis of a decision by the service pension board and, as you see, this decision established the man's entitlement to an immediate annuity with a capital value of \$53,700.

Mr. RYAN: We should find out who is responsible for that.

Mr. HENDERSON: In the other case the serviceman aged 43, regarded as an administrative nuisance because of his inability to control his personal finances, was awarded only a return of contributions amounting to \$4,111.

Mr. ARMSTRONG: I have a very brief report which might help to clarify the thinking on these two cases. In the first case where a pension was awarded—I think this will help to explain the reasoning of the pension board—the individual was a well qualified tradesman. He was living in a common-law wife relationship and was faced with a court order of \$200 a month for the support of his legal wife and two children. He owed \$1,500 on a car, and was in arrears on his rent. While he was a good tradesman, in view of his domestic and financial entanglements, he could only be employed in Ottawa. This restriction was not acceptable to his service, and it was decided, consequently, that he should not be offered a re-engagement. On the expiration of his engagement he was released. At that time he had completed 18 years and 265 days service. He did not request his release and did not refuse to re-engage.

In the light of those circumstances, the pension board concluded the retirement was compulsory and, while the circumstances made it desirable that the man should be released, those circumstances did not amount to inefficiency or misconduct, and accordingly, they determined that the reason for retirement was for the purpose of promoting economy and efficiency in the services. That was the reason for his retirement on which his pension was based.

In the other case, the man formally applied for release. His reason was that owing to his medical category he could not be promoted and that he had financial problems which he could not solve in the service. The files of his record indicated that his service was satisfactory and that his financial problems did not interfere with the performance of his duties, although his poor financial situation did cause him to be somewhat of an administrative nuisance to his unit.

This man had 20 years and 225 days service, and was 43 years of age. The factual situation was that since he had requested his release, the release was voluntary, and the service pension board had no alternative but to determine that the fact of his release was voluntary and in that case he was not awarded a pension but received a return of contributions.

The VICE-CHAIRMAN: Are there any further questions?

Mr. RYAN: If this latter man had misconducted himself, then I take it he would have been able to get a pension of around \$35,000 in capital value, or \$53,700 in capital value; that is all he had to do. Is this so in the services?

Mr. ARMSTRONG: If he is discharged for misconduct, he does not have an entitlement to pension.

Mr. RYAN: But if he has enough influence, apparently he can have it described in another way.

Mr. ARMSTRONG: We have a pension board established by statute that is there for the purpose of going through all the circumstances that apply to release, and to establish the reason for release; that is their function. I suppose

it is conceivable that a man who is determined to do so could so conduct himself that he might be released and obtain a pension. I do not say that this is not possible.

But the presence of the pension board and the review system is to make an effort to establish appropriate reasons for release. That is the method which is established by the law in order to do this.

The VICE-CHAIRMAN: Now, Mr. Berger.

Mr. RYAN: These facts are too bold, in your opinion?

Mr. ARMSTRONG: I have given you the facts as the pension board saw them. The two cases were different. In one case the man in fact requested to be released.

The VICE-CHAIRMAN: Now, Mr. Berger.

(Translation)

Mr. BERGER: Mr. Chairman, I wish to congratulate the Auditor General, Mr. Henderson, and Mr. Armstrong, for the complete reports they present us; however, I am slightly worried, but not unduly, when I see all the precautions that are taken to examine a problem such as the one we had a while ago and which seem incompatible with the numerous problems which are brought to me by the veterans of my riding who, in my opinion, are honest people and would be entitled to receive a pension, but do not get any. That is what worries me; I would like my question to be in order, but I would like to know if the department intends to examine those matters. Perhaps some have received too much in comparison with those who would be entitled to receive something. This question may not be relevant to the business of the committee, but is the government contemplating a complete revision of the pensions system so that those who, in my opinion, are entitled to draw a pension could obtain at least some degree of justice. I have constituents who would be satisfied with part of the capitalized values of \$35,000 and \$15,000, but do not receive anything; some veterans in my riding face similar problems, which are sometimes studied. That is what worries me. Some people, in spite of their misconduct and their inefficiency, receive higher amounts than those to which they would be entitled normally; I do not say that the administration could be improved, but at least those cases could be examined. Is the department contemplating a new study of the whole system of pensions, including the problems which face us at present and those which I will humbly submit.

Mr. ARMSTRONG: As part of the study to which I referred earlier, one of the directives given to the group that made the study was to endeavour to achieve a system under which the entitlements to pensions were specific, and we could eliminate, if this were possible, the considerations of the pension board. They are specific now in many cases. If a man is retired on account of age, this is perfectly clear. If he is retired because of medical grounds, this is clear. But there are those cases where the man is retired for inefficiency or in order to promote economy and efficiency, where there are some questions of what is the real reason for retirement. And in such cases the pension board really determines after examining all the facts what that reason is.

Mr. BERGER: I could be more precise, if you wish.

Mr. ARMSTRONG: Under the system, with the exception of one or two cases such as misconduct, subject to the appropriate service and the reason for retirement, the man is entitled to pension and he has a legal right to it under the law.

Mr. BERGER: I have two cases in my own riding right now where people are asking how come they were so anxious to get me in, and then when I am in I have to prove that I am not fit, and then they throw me out.

Mr. ARMSTRONG: I do not know the individual cases, but if the people concerned had sufficient service, there must be a minimum of ten years' service in order to establish a pension. If they were discharged upon medical grounds, then they would be entitled to pension. But if their service was fewer than ten years, then no pension is payable.

Mr. BERGER: That answers my question. The next time they come to see me I shall send them to the national shrine at Ste. Anne de Beaupre.

The VICE-CHAIRMAN: If there are no more questions on paragraph 69, let us now turn to paragraph 70.

70. *Overlapping of pension benefits.* Two members of the Royal Canadian Mounted Police retired on pension in 1952 and were engaged in the forces on short-service commissions. They continued to draw their pensions of \$1,584 and \$1,347 per annum, respectively, in addition to their service pay and allowances. After some nine years of temporary service they were granted permanent commissions in the Forces whereupon they became contributors under the Canadian Forces Superannuation Act. They then surrendered their mounted police pensions, and elected to count the years of service on which these pensions were based (some 20 years in each case) towards their pensions from the forces on eventual retirement. After one further year of military service, both officers were retired on full pensions of \$4,127 and \$4,900, respectively, based on their combined service in the mounted police and the forces (35 years in one case and 32 years in the other). However, they were allowed to retain the annuities which had been paid to them under the Royal Canadian Mounted Police Superannuation Act during their nine years of temporary service, amounting to \$15,092 and \$12,048 respectively. Thus they will eventually have received two pension benefits for the same period of service.

We have been informed that, in the opinion of the legal officers of the department, the action taken conforms to the provisions of the Canadian Forces Superannuation Act. If this is so, we are of the opinion that consideration should be given to amending the act.

Mr. CROUSE: In paragraph 70, without reading it all, because we have the pages before us, my question to Mr. Henderson or to Mr. Armstrong is this: Why were these two mounted policeman not required to repay their first pensions?

Mr. ARMSTRONG: The reason they were not required is that the law does not require them to repay it. These men were under a section of the Royal Canadian Mounted Police Act which was amended in 1949. Before that the man did contribute towards his pension. But under the Canadian Forces Superannuation Act he has the right to elect within one year of becoming a contributor under that act, to count his service in the R.C.M.P. if he wishes to. They must surrender their pensions when they do this for the future.

These men came into the navy as short service commissioned officers and they were not put under the Canadian Forces Superannuation Act. Then they became regular force officers and as such they became eligible as contributors under the Canadian Forces Superannuation Act. They both elected at that time to contribute for their R.C.M.P. service; but the law requires that they surrender their pensions, and they did surrender them from then on; and they paid in respect of the service in the mounted police a contribution at six per cent of the salary they received during that period. The law does not require them to pay back their pensions.

Mr. CROUSE: I understand this from reading the account that Mr. Henderson has on page 41; but it seems like strange law to me to permit these two R.C.M.P. policemen to draw pensions of \$1,584 and \$1,347 per annum re-

spectively for a period of some nine years when they served in the Canadian navy, and then having drawn those pensions as well as their salaries they thereupon apparently realized it was to their material benefit to elect for the pension plan of the navy, and so in fact they have become entitled now to two pensions for the period of the service which they rendered in the R.C.M.P. Would you not agree, this being the case, that here is a law which definitely should be amended?

Mr. ARMSTRONG: Yes, I would agree with you. I have made a note of it, and when we amend our act, certainly this will be brought to attention. I have had it checked, and I do not think there are any other similar cases which come under that section of the Royal Canadian Mounted Police Act, so I do not think you have any worries in respect of other cases.

Mr. CROUSE: You are telling the committee that this law will be amended and that we will not in the public accounts committee at some later date have a similar recurrence?

Mr. ARMSTRONG: I am telling the committee that I have taken a note of it and that I shall bring it to the attention of the ministers when they come to amend the act.

Mr. CROUSE: You are saying that there will not be any requirement for these men to repay this amount of money which they had received over a period of some nine years, in one case amounting to \$15,092 and in the other case to \$12,048?

Mr. ARMSTRONG: I was not suggesting an amendment which would make these men repay at this point. After all, they made the decision having regard to the law as it applied at that time, and I do not think it would be reasonable for us to pass a law retroactively to require them to pay this back.

Mr. CROUSE: I am thinking of the inequity that is evidenced here. If, for instance, someone unintentionally obtains old age assistance at 65 and then suddenly, when they become 70, it is realized that their income during those five years in which they received old age assistance was higher than they originally declared, then the federal government, instead of paying these elderly citizens \$75 a month, withdraws the amount owing by a deduction of \$10 a month until such payment is returned to the federal treasury. This is what we do to our senior citizens. This looks like very special treatment.

Mr. ARMSTRONG: The point I was making is that these men have been dealt with in accordance with the law applied at the time the decision was made. Whether or not they would have elected to count that service at all had they been required to pay back \$15,000, I do not know, but it would seem to me to be somewhat unreasonable at this point, when they made a decision under the law, to attempt to change it in so far as they are concerned.

The VICE-CHAIRMAN: Are there any further questions?

Mr. RYAN: In this case apparently they surrendered the amount of pension.

Mr. ARMSTRONG: Yes.

Mr. RYAN: Did they surrender it for all purposes or was this a temporary suspension?

Mr. ARMSTRONG: For all purposes. Their pension in the future is the one that is determined under the Canadian Forces Superannuation Act, including the service they rendered to the R.C.M.P.

Mr. RYAN: Who would make the arbitrary decision that they could be reinstated and allowed to retain these annuities?

Mr. ARMSTRONG: This is not an arbitrary decision.

Mr. RYAN: It is a compassionate one.

Mr. ARMSTRONG: The law permits them to retain their Royal Canadian Mounted Police annuity when they are pensioned whether they work in the public service or in the armed forces.

The VICE-CHAIRMAN: Are there any further questions?

Mr. Henderson wishes to make a short statement before the meeting is adjourned.

Mr. HENDERSON: Mr. Chairman, this brings us to the concluding points on which you may wish to question Mr. Armstrong, and these have to do with the non-productive payment list for 1963 which you will find at page 148, appendix I, in this report. Here you will find listed some 37 cases of non-productive payments, and the ones which relate to the Department of National Defence, primarily those relating to Defence Construction Limited which we were discussing this morning, total altogether six in number, Nos. 2, 8, 9, 10, 11 and 12, as follows:

2. CONSTRUCTION OF AMMUNITION LIGHTERS. In September 1953 a shipbuilding concern was awarded a firm price contract by the Department of Defence Production, for the construction of two ammunition lighters for the Navy. At the time tenders were called the estimated period of construction was to be nine months. However, the actual time required was 37 months due largely to delays beyond the control of the contractor inasmuch as specifications were inadequate, the design was not firm and components to be incorporated into the vessels were not delivered on time. In the year under review, the shipbuilding firm was paid \$68,925 in settlement of its claim for additional costs attributable to the delays.

An almost identical situation arose in connection with a contract for construction of another ammunition lighter, awarded by the department to another shipbuilding firm also in September 1953. In this case the actual period of construction was 42 months, the prolongation of the contract being in large measure attributable to delays in the approval of drawings and in the delivery of machinery and equipment and associated drawings under a contract placed independently by the department. The shipbuilding firm claimed for additional costs occasioned by the delays and, during the year under review, was paid \$12,817 in settlement of its claim.

We are informed by the department that the circumstances giving rise to these payments in 1962-63 occurred in 1953 when the department was struggling to achieve sufficient organizational strength to compete with the tremendous procurement demands being made upon it by the tide of events flowing from the Korean war.

8. CONSTRUCTION OF JETTY SERVICES, SEAWARD DEFENCE BASE, HALIFAX. A contract for steam, water, air, electrical and telephone lines at the Royal Canadian Navy seaward base was awarded in May 1959 by Defence Construction (1951) Limited in the amount of \$120,200. After commencement of the work and when progress was gaining momentum, the navy advised that major changes must be made to the design. The time lost while new drawings were prepared and while the materials and equipment called for by the modified design were being procured forced the contractor into winter operations and, as a result, the contractor claimed for additional costs of \$21,522. The crown accepted responsibility for five months delay and made settlement in the amount of \$12,985 in May 1962.
9. ROADWORK AND LANDSCAPING, CAMP PETAWAWA, ONT. In April 1956 a contract in the amount of \$1,572,112 was awarded by Defence Construction (1951) Limited for road work, landscaping, sewers and

watermains at Camp Petawawa. This work was being carried out during a period of major activity in the Canadian Army home station development program and at the time there were 19 separate contracts in progress on the site. The projects were scheduled in such a way that there would be a minimum of interference and interruption in the work being carried out by the individual contractors. However, delays in the delivery of steel and other building materials, a shortage of electrical power, delays by the crown in removing temporary army buildings together with changes in the design and specifications caused the over-all project to fall behind schedule. The contractor for the roadwork, landscaping, sewers and watermains was thus prevented from proceeding with the construction schedule as tendered and additional costs for rented equipment, standby time and repairs to damaged landscaping were incurred.

The contractor claimed for the additional costs occasioned by the above-mentioned delays and was paid \$36,604 in December 1962.

10. EXTENSION OF WATER AND SEWERAGE FACILITIES, GREENWOOD, N.S. In April 1960 Defence Construction (1951) Limited awarded a contract in the amount of \$225,340 for the extension of water and sewerage facilities to serve 300 permanent married quarters being constructed under another contract at R.C.A.F. station, Greenwood.

The construction schedule called for work to commence by May 10, 1960 and for completion of the project by August 30, 1960, but actual completion was not until December 1960. Because the building contractor, in spite of careful planning, was unable to complete the houses on schedule, the sewerage work was delayed 30 working days. In addition, due to a delay in the availability of electrical power the contractor was obliged to rent portable generators and pumping equipment in order to provide temporary water supply and sewerage facilities. As a result of these delays, the contractor claimed for the idle time of his equipment and the rental of additional equipment and overhead, and was paid \$16,315 in the year under review.

11. CONSTRUCTION OF FOUNDATIONS AND INSTALLATION OF SERVICES, ST. SYLVESTRE, QUE. In October 1961 Defence Construction (1951) Limited awarded a contract in the amount of \$127,136 for the construction of foundations and installation of services for 25 mobile homes at R.C.A.F. station, St. Sylvestre. During the progress of the work, sub-surface water conditions, underground springs and substantial rock excavation not originally anticipated impeded the progress of the contract. This, combined with the time required to process necessary engineering and design changes, made it impossible for the contractor to meet the target completion date of December 15, 1961. Consideration was given to deferring the work until the spring of 1962. However, this was rejected due to the prearranged program for manufacture, delivery and erection of the mobile homes under another contract.

Thus the contractor was forced into a winter construction program at substantially increased costs. When the ground thawed in the spring it was discovered that the waterline pipe was broken in many places. A firm of consulting engineers employed to carry out an investigation to determine the cause of the failure reported that movement of the saturated and unstable foundation materials under freezing winter conditions had subjected the pipe to loads in excess of its structural strength. As a result of further engineering studies by engineers of Defence Construction (1951) Limited and the De-

partment of National Defence a number of design changes were made which took into consideration the sub-surface conditions encountered. The remedial work thus occasioned involved the reopening of the entire system and this was carried out in the summer of 1962.

The foregoing delays resulted in an unproductive period of approximately five months. The costs incurred during this period, and for the remedial work, were established at \$130,569 by Defence Construction (1951) Limited and agreed to by the department and, as the crown had accepted responsibility for half of such costs, the contractor was paid \$65,284.

12. CONSTRUCTION OF ROADS, ETC., AND WATER AND STEAM DISTRIBUTION SERVICES, SUMMERSIDE, P.E.I. In October 1958 a contract was awarded by Defence Construction (1951) Limited in an amount of \$1,512,749 for the construction of roads, drainage, grounds development, concrete aprons and taxiways, and water and steam distribution services at the R.C.A.F. station, Summerside.

After the commencement of work under the contract, delays were occasioned by changes in the plans for the work. The most serious delay arose in August 1959 when a change in profile of hangar aprons and taxiways resulted in additional quantities of sub-base material being required, and additional funds to provide for this were not made available in time to take advantage of the fall construction season. Although the contractor continued with the work on a reduced scale until September 1959 he was then obliged to suspend operations. In the schedule for the over-all project it was anticipated that a substantial amount of asphalt would be laid in the fall of 1959 and the contractor had been instructed to move his asphalt plant to the site. However, because of the delay mentioned, only a limited amount of asphalt work could be completed. The contractor claimed for additional costs for rental of equipment, overhead, and supervision and was paid \$76,213 in October 1962.

They indicate non-productive payments totalling \$288,000 collectively. I do not know the extent to which you might wish to question any of the individual ones, but if you so wish we have documentation here and I would hope we would be in a position to furnish any information.

Mr. CHOQUETTE: Is that the 1962 report or the 1963 report?

Mr. HENDERSON: The 1963 report, page 148, appendix I.

Mr. WINCH: Without going into any detail at all, I think that at least two of these items tie in with the discussion we had this morning relative to faulty plans, faulty engineering and the letting of contracts on improper specifications. If you look at No. 2, you will see that something which should have taken nine months, took 37 months. The specifications were inadequate, the design was not firm, and so on.

Then, if you go on to the following page you will find there were faulty plans. As I said, without going into any details, we have here two items out of five where there were faulty specifications, a faulty plan, and so on, which ties in with our discussions prior to this evening's meeting.

I want to ask Mr. Armstrong if, in view of these continuing reports—we get them year after year—he does not think that there is need for a real check up of the engineering section of his department.

Mr. ARMSTRONG: I do not think one can generalize on these things as you have done, Mr. Winch. If you take item 2, without going into any great detail, there were design changes in the course of the construction of these vessels, but these were not the primary causes of the delays that resulted in the addi-

tional cost. When this was examined by the contract settlement committee, they concluded that the claim was based on delays directly or indirectly attributable to problems related to the delivery of machinery and electrical equipment and associated drawings under a contract placed independently by the department for the construction of the ship.

Mr. CROUSE: May I interject at this point? Were not specifications sent out to these contractors prior to the biddings so that they would know the type of equipment upon which they were bidding and of necessity have that equipment available?

Mr. ARMSTRONG: What I am saying is that there were two contracts here, one contract for the production of the machinery and electrical equipment, and so on. Now, the shipbuilding branch of the Department of Defence Production did come to the conclusion in this case that the delay was occasioned by the problems relating to the delivery of that machinery and electrical equipment for which a contract was placed independently, and consequently the shipbuilder himself had no control over the situation. In essence the problem here is a problem of contract, not a problem of design.

Mr. WINCH: Are you saying that the Auditor General's branch are making a misstatement under No. 2 when they say, "due largely to delays beyond the control of the contractor inasmuch as specifications were inadequate, the design was not firm"? Are you saying that is not a correct statement?

Mr. ARMSTRONG: I agree the delays were beyond the control of the contractor.

Mr. WINCH: I am referring to the words, "specifications were inadequate, the design was not firm". Are you saying that is a misstatement by the Auditor General?

Mr. ARMSTRONG: I am saying that the primary reason for the delay was the separation of the contracts—and I am basing my statement on the conclusions reached by the contract settlement committee—with the result that the prime contractor, who had the contract for the construction of the ship, could not control the delivery of the machinery and other items that had to go into that ship. This resulted in lengthy delays and it also resulted in additional cost.

Mr. CROUSE: May I ask a supplementary question to Mr. Winch's question?

Are we in this committee to believe that, owing to delays in design, approval of drawings and the delivery of machinery and equipment, the construction of one ammunition lighter was delayed for a period of three and one half years? The figure quoted here is that of 42 months. As one who comes from a shipbuilding area in Canada on the east coast, I find this very difficult to believe. That is a period of time in which any piece of equipment, whether it be engines or generating systems or electrical equipment required in a barge or a lighter, should certainly be supplied.

Mr. WINCH: In three years—

Mr. CROUSE: and one half.

Mr. RYAN: It sounds like the Toronto fire boats.

Mr. CROUSE: This I find very difficult to believe, Mr. Chairman. Certainly there is something wrong in a department that issues plans and specifications when this happens. Someone should answer for an error of this kind which has cost the taxpayer an additional sum on one contract of \$68,925 and, in another, \$12,817. If this is the best that can be done by way of specifications, I submit that they should be thoroughly investigated in order to speed up the program.

Mr. ARMSTRONG: When you say they should be thoroughly investigated, this, as you know by the top of the Auditor General's comment, refers to a

contract that was let in September, 1953. This is a long way back. It was at a time when both the Royal Canadian Navy and the contracting side of the Department of Defence Production were involved in substantial shipbuilding programs as a result of the expansion that was taking place at that time. There is a vast difference today in the procedures that are used both on the contracting side and on the planning side for these items.

(Translation)

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: Respecting item 11, in 1961, a contract was awarded to the Defence Construction Limited to the extent of \$127,136. Two years later, it was announced that the radar station located at St-Sylvestre would be closed, after a contract for \$127,000 had been awarded. When that contract was awarded, had it not been foreseen that the radar station at St-Sylvestre would eventually be closed?

(Text)

Mr. ARMSTRONG: No, sir, there was no plan to close this. This was two years in advance of the closure. There was no plan at that time for closure of St. Sylvestre.

(Translation)

Mr. CHOQUETTE: At that time, the closing of the radar station could not be foreseen? Military science was not sufficiently developed, or had the higher hierarchy decided that the small radar stations would be closed immediately?

(Text)

Mr. ARMSTRONG: I do not know whether one attributes this to military science or not. All I can say is that in fact there was no decision to close that station at that time. Hindsight is always a good thing. Whether, looking back now, one could come to the conclusion that perhaps a decision could have been made in 1962, I do not know. However, certainly it was not made at that time and there was not a thought at that time, I think, of closing the station in 1964.

(Translation)

Mr. CHOQUETTE: In item 11, also, the contractor is mentioned. Who is that contractor mentioned in the second paragraph of item 11? Is it Defence Construction Limited, or is he one Nadeau of St-Sylvestre, county of Lotbinière?

(Text)

Mr. ARMSTRONG: I do not have the contractor's name. I am sure Mr. Henderson would have it there.

Mr. HENDERSON: The contractor was Nadeau et Frères.

(Translation)

Mr. CHOQUETTE: Nadeau et Frères! They were the contractors?

Mr. FRENETTE: That is correct.

(Text)

Mr. HENDERSON: Yes, they were the contractors.

(Translation)

Mr. CHOQUETTE: Then I see on the last line of section 11 that the Crown admitted its responsibility respecting half the costs. Was this discussed extensively, or was it not through the former minister of Defence Production who intended to show his magnanimity toward one of his subscribers?

(Text)

Mr. ARMSTRONG: As I mentioned earlier, contract settlements of this kind are the responsibility of Defence Construction Limited not that of the Department of National Defence.

Mr. CHOQUETTE: You mean to say that is under the jurisdiction of the Department of Defence Production?

Mr. ARMSTRONG: The settlement is, yes.

Mr. WINCH: How about the plans and engineering?

Mr. CHOQUETTE: If you do not mind, Mr. Winch, we will get through this now because it is very interesting.

The VICE-CHAIRMAN: First Mr. Choquette, then Mr. Rondeau, Mr. Hales and then you, Mr. Winch.

(Translation)

Mr. CHOQUETTE: Once more, Mr. Armstrong, how is it that in the first paragraph it is said that the contract was awarded to Defence Construction Limited, and in the second paragraph the contractor is stated as being Nadeau et Frères?

Mr. FRENETTE: That is not what is said there; Defence Construction awarded the contract.

Mr. CHOQUETTE: Then Defence Construction awarded a contract to Nadeau et Frères, who were the contractors. Then . . .

Mr. FRENETTE: That is right; Defence Construction awarded the contract to Nadeau et Frères.

(Text)

Mr. HENDERSON: That is correct.

(Translation)

Mr. CHOQUETTE: Then the amount of \$65,284 mentioned in the third paragraph was paid as a supplement, apart from the sum of \$127,136? Is that correct?

(Text)

Mr. HENDERSON: Yes.

Mr. ARMSTRONG: Yes, I think that is right.

(Translation)

Mr. CHOQUETTE: Have you any details concerning the agreement which was reached and which granted \$65,284 to Nadeau et Frères?

(Text)

Mr. ARMSTRONG: I am not in a position to give you a detailed account of the various items that were included in that settlement. I could give you some information in terms of the reasons for paying an additional amount. In the course of the work unforeseen soil conditions were encountered in various sections of the project. The extent of those conditions was not detectable from preliminary soil test data, nor was there any indication of the subsurface conditions on the contract drawings. In some of the areas sub-surface water conditions were encountered resulting in the formation of soft silty soil material, underground springs with free flowing water presented further problems, while in other areas substantial rock excavation was required over that which had been estimated. All of those unforeseen conditions both impeded the progress of the contract and increased the cost. These are some of the reasons for the resulting increased cost. I do not have that report here with me.

(Translation)

Mr. CHOQUETTE: The experts' report, because it is mentioned that a committee of experts investigated on site. Have you the report of those experts?

(Text)

Mr. ARMSTRONG: I do not have the report.

(Translation)

Mr. CHOQUETTE: You do not have the report. Is it possible to obtain it some way or other, or . . .

In other words, I will tell you exactly what I want, Mr. Deputy Minister; this will probably make you understand better. One could not say that it is evident, but it may be suspected that if an amount of \$65,000 was granted, then the government admits its guilt respecting half the damages. There is something strange in this, and one can suspect that it was through the former Minister of Defence Production, who then was the member of Parliament for Lotbinière, and also through some co-operation with the contractor Nadeau et Frères, who is one of the ex-minister's subscribers. Then, without a more detailed agreement, how can the government recognize its guilt respecting this amount of \$65,000? There is something strange about this, and I would like to clear up this matter.

The VICE-CHAIRMAN: Mr. Choquette, since that information is not available at present, I wonder if Mr. Armstrong could not send it for the next meeting.

Mr. CHOQUETTE: Yes.

The VICE-CHAIRMAN: Is this satisfactory?

Mr. CHOQUETTE: Then, Mr. Deputy Minister, would it be possible to obtain, at the next meeting of the Public Accounts Committee, the complete report of the engineers who investigated on site? Secondly, would it be possible to obtain a copy of the agreement, which produced the regulation referred to, that is, to the effect that the government and the contractor agreed to share equally the damages which resulted from such works? Therefore, if it is possible, I would like to obtain the engineering report and the details of the agreement which was entered into between the government officials of that time and the contractors, Nadeau et Frères?

(Text)

Mr. ARMSTRONG: I do not have that report but I should think it is possible to obtain it.

Perhaps I could elaborate a little in the explanation I gave you regarding the unusual conditions which were found there. Because of those conditions it was in fact necessary to make certain design changes to meet the conditions of the subsoil surface. This resulted in the contractor having to work through the winter, which, of course, involved some additional changes.

After the thawing out period in the spring it was found in the course of pressure testing that the water line pipe had broken in many places. An independent firm of consulting engineers, Piette, Andy, Lepinay and Bertrand was employed to carry on an investigation to determine the cause of the failures. Their report indicated that movement of the saturated and unstable foundation materials under freezing winter conditions had subjected the pipe to loads in excess of its structural strength and the pipe was consequently broken.

As a result of further engineering studies by the engineers of the department of construction and the department it was determined that the tolerance of the design for underground surfaces could not be adapted to the unforeseen sub-surface soil conditions which existed on site. A number of design changes were therefore made calling for cast iron pipe on a crushed rock bedding with

mechanical joints in lieu of the original specified asbestos water sewer pipe on a bed of sand. That remedial work involved reopening the entire system, was carried out during the summer of 1962 and finally was advanced sufficiently to permit the prefabricated houses to be put on footings by the middle of August. That explains the rather major changes that did take place during the course of the contract.

(Translation)

Mr. CHOQUETTE: The government decided to pay \$65,000, on the advice of the experts or upon the specific recommendation of the Minister of Defence Production. If it did so on the advice of the experts, would it be possible to obtain a copy of the letters or the correspondence addressed by the latter to the government officials and which would show the reasons why the contractor shares equal responsibility with the government? Have you a copy of that correspondence?

(Text)

Mr. ARMSTRONG: The contract settlement was worked out by Defence Construction Limited and not by the Department of National Defence.

Mr. CHOQUETTE: It was not worked out by the Department of National Defence?

Mr. ARMSTRONG: I presume that material is in their files somewhere but I do not have it.

Mr. CHOQUETTE: You would not have that information?

(Translation)

The VICE-CHAIRMAN: In that case, it might have to be asked on the Orders of the Day.

Mr. CHOQUETTE: The Orders of the Day of the House?

The VICE-CHAIRMAN: Yes.

Mr. CHOQUETTE: This is my last question, Mr. Armstrong. Can you state categorically that in October 1961 it was not already contemplated to close the radar stations located at Parent, Edgar and St-Sylvestre? Was that question not already being studied in October 1961?

(Text)

Mr. ARMSTRONG: I am not aware of that and would have to go back and check further to be absolutely certain. I am sure it had not been or we would not obviously have done this construction.

(Translation)

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: Mr. Armstrong, in sections 8, 9, 10, 11 and 12, not to mention others, we always see the name of "Defence Construction Limited 1961". I assume that it is a Crown corporation?

(Text)

Mr. ARMSTRONG: Yes it is a Crown corporation.

Mr. RONDEAU: It is. I will now move to item No. 4.

(Translation)

Section 4 states that in 1960-61 (without precise date) it was decided to build a penitentiary at St-Pie, county of Bagot.

(Text)

Mr. HENDERSON: This is not the Department of National Defence, Mr. Rondeau. Penitentiary construction is under the jurisdiction of the Department of Justice.

Mr. RONDEAU: I realize that but I am permitted to ask questions in this regard at this time.

Mr. HENDERSON: Indeed you are but I doubt whether Mr. Armstrong will be able to reply.

(Translation)

The VICE-CHAIRMAN: This does not fall under Mr. Armstrong's department, and he surely cannot answer that question. It falls under the Department of Justice.

Mr. BERGER: He is so able that we wish to ask him questions about everything.

(Text)

Mr. HENDERSON: We could and will pick this subject up as we continue our work in respect of the 1963 report. We will pick up these paragraphs in respect of other departments, of which this is one, but we are now only picking up those which pertain to the Department of National Defence.

Mr. RONDEAU: I will defer my questions until we reach a consideration of those paragraphs.

Mr. HENDERSON: If I may say so, Mr. Chairman, that would be the right thing to do, if Mr. Rondeau does not mind. I can give him such information as we have in this regard but we may well have another witness at the time of our consideration of these paragraphs.

The VICE-CHAIRMAN: I think we should wait until then, Mr. Rondeau.

Mr. RONDEAU: That is fine.

Mr. HALES: In respect of most of the cases where the specifications were inadequate, were late in being produced or where designs were not confirmed, who prepared these specifications and designs?

Mr. ARMSTRONG: They were prepared by the Department of National Defence.

Mr. HALES: They were prepared by the Department of National Defence. How many employees would there be in your department in the design, construction, or whatever you call that department?

Mr. ARMSTRONG: Are you speaking of building construction.

Mr. HALES: Yes. I am speaking of those who draw all these designs and specifications.

Mr. ARMSTRONG: Yes. I think perhaps I ought to clarify this. The Department of National Defence is responsible for the design and specification of any item that we request the Department of Defence Production or defence construction to contract for us. Now, in building construction most of the design, in fact, is done by contracts awarded to consulting firms. We do the basic design to determine what we require but the detailed design is let out to contract. But, we in the Department of National Defence nevertheless are responsible for that design.

Mr. HALES: So, these cases we run into here, where specifications were inadequate and so on, are the responsibility of the Department of National Defence.

Mr. ARMSTRONG: Yes.

The VICE-CHAIRMAN: Or, some consulting firms?

Mr. ARMSTRONG: Well, the responsibility for design and what we seek in the way of equipment and the specifications for it rest with the Department of National Defence.

Mr. HALES: All right; that is what I want to establish. I wanted to establish where the responsibility lies for the specifications and designs, and the responsibility rests with your department if these are not ready in time or if they are wrong and incomplete.

Mr. ARMSTRONG: Yes, I think I would agree that that is our responsibility.

Mr. HALES: All right. As you realize, this crops up very often in respect of these things and I just wanted to place the responsibility. I have one other question and then I am through. When a contract is let and there is an additional payment to be made and any additional payment is made by defence construction or defence production, who are doing the buying, do they consult your department by saying that they need some extra money and ask you to O.K. these payments? I asked this afternoon if you O.K'd these extra payments as deputy minister and you said no, that some other official in the department did. Would you not agree with the committee that any amounts over and above the contract price—that is, any overpayment—should be O.K.'d by the deputy minister of the department.

Mr. ARMSTRONG: We have responsible men as assistant deputy ministers to do this job. I think you will agree with me, Mr. Hales, that if you ask a deputy minister to sign too many things he will not get the job as well done as would be the case if he had some experts who are able to do the work, are trained for the job, have the capability of doing it, and can handle the volume. There are a tremendous number of things, as you appreciate, that go on in the Department of National Defence and the deputy minister just cannot see them all. It is not practicable. But, I would like to make the point again that the responsibility for settlement of a contract claim is the contracting department, not the Department of National Defence.

Mr. HALES: Well, these overpayments are such an important matter so far as the taxpayer's dollar is concerned. I think it would be the general opinion of this committee, from what we have been told and what we have examined, that this is getting out of bounds and these overpayments will have to be clamped down upon in some form or another, and I am just trying to establish which is the best way to do it.

Mr. ARMSTRONG: Mr. Hales, the question of whether these types of payments are out of bounds is a matter of judgment and a matter of standards. We have looked today at a number of contracts which have involved adjustments in respect of things which have gone wrong. But, we deal with expenditures on contracts of one kind and another in excess of \$500 million in a year. When you look at the number of cases that are here in respect of the volume of the contracts, then I think there is some question whether or not they are out of bounds. I do not like to see these things any more than you do, or any more than do any of the other officers in the Department of National Defence. Certainly, we take all the measures of caution that we can take to avoid these things. There are occasions when circumstances happen that are, in fact, quite unforeseen which you cannot avoid at all. In fact, there are occasions when new developments arise after a contract has been let, or after a specification has been provided where it would be uneconomical not to do something about it, even though it involves a change in that contract; this may be as a result of a change in information, a change in needs, or other things. Therefore, these are not avoidable in their entirety.

I am afraid, in a department such as ours, there will be some things happen which probably cannot be avoided. Many of the things which do happen really are not avoidable in a real sense of the word.

Mr. HALES: As was said before, ever since I have been on the public accounts committee, this has been going on and does not seem to be improving. This is the point I am making. What is to be done to improve the situation?

We do not seem to have come to this point. At this hour in the evening it is too late to go into this; but our committee will have to come up with some pretty firm recommendation on this point.

Mr. ARMSTRONG: I believe there are many things in this respect which have been improved. In the shipbuilding field the changes which have appeared since 1953 have resulted in real improvement in terms of the contracting and in terms of the method of doing business which brings us better value for our money. I am in a difficult position in appearing before the committee, because these things are complicated and take a good deal of explanation. However, I assure you there are improvements.

Mr. WINCH: Mr. Chairman, I was going to ask some question in respect of No. 12, but any questions I could ask in this regard and any answers I would receive I think would be almost identical to what has been going on all day; so, I will pass.

Mr. CARDIFF: I learn a little more by keeping quiet and listening than by asking questions. I have come to the conclusion that your biggest trouble lies in the fact that there is an overlapping in responsibility from the Department of National Defence to the Department of Defence Construction; there is no person on whom you can pin the responsibility. You shift from one place to another until we cannot find out who is responsible or who is not. That is my conclusion. However, it is the government which has to pay the bill.

A good deal of money is involved here. In five different items in the 1962 report, I figured it up and there was an amount of \$95,886 which was spent by way of negligence on the part of somebody. I am not blaming the deputy minister any more than the fact that there is some overlapping of responsibility; but it should be pinned down to somebody and should be corrected.

(Translation)

The VICE-CHAIRMAN: Mr. Frenette.

Mr. FRENETTE: I would like to revert to paragraph 11 concerning the installations at St. Sylvestre. You told us a while ago, Mr. Armstrong, that when plans are designed by the Department of National Defence, they are sometimes prepared by the engineers of Defence Construction, and sometimes by a private firm. In the case of St. Sylvestre, were the plans and specifications prepared by the engineers of Defence Construction or by a private firm?

(Text)

Mr. ARMSTRONG: You may have misunderstood me. The plans are not prepared by defence construction engineers. They would let a contract to a private consulting firm for the preparation of the plans; they do not prepare the plans themselves.

I do not think I have the information here with respect to the St. Sylvestre. I do not know if Mr. Henderson would have it or not.

(Translation)

Mr. CHOQUETTE: Could I ask, Mr. Chairman . . . Were any public tenders called for?

(Text)

Mr. ARMSTRONG: I think Mr. Henderson may have this information. I do not have it here.

Mr. CROUSE: Shall we meet tomorrow?

The VICE-CHAIRMAN: We are going to finish this tonight. We do not have any place to go anyway.

Mr. CROUSE: We have to get up and go to work in the morning. We are not like you people.

(Translation)

Mr. CHOQUETTE: Would it be possible to have that contract translated? Mr. Chairman, in view of the fact that I suspect a shady manoeuvre—I do not pull any punches—in the awarding of the contract to Nadeau et Frères, for the building of the foundations at St. Sylvestre, two years before it was announced that the radar station would be closed, could I obtain leave to request production of a copy of this contract? Is it possible to produce such documents, particularly those which were signed by Defence Construction?

The VICE-CHAIRMAN: That would have to be tabled through the Orders of day?

Mr. CHOQUETTE: The Orders of the day?

The VICE-CHAIRMAN: It must be produced if you request it through the Orders of the day. You may ask any question you wish of Mr. Armstrong.

Mr. CHOQUETTE: Yes.

The VICE-CHAIRMAN: He does not know the answers, anyway.

Mr. CHOQUETTE: No.

The VICE-CHAIRMAN: This is what you will be told: have all documents tabled in the Orders of the day.

Mr. CHOQUETTE: I trust Mr. Armstrong's honesty and great ability.

The VICE-CHAIRMAN: You are right.

Mr. FRENETTE: Then, Mr. Chairman—

The VICE-CHAIRMAN: Yes, Mr. Frenette.

Mr. FRENETTE: In order not to hold up any further the work of the committee, and if I request additional information, I can arrange with Mr. Choquette—

Mr. CHOQUETTE: Certainly.

Mr. FRENETTE: And then we will consult one another.

Mr. CHOQUETTE: Is it possible to obtain the number of that contract, tonight maybe?

(Text)

The VICE-CHAIRMAN: Can you give him the number of the contract?

Mr. HENDERSON: I have the details here, Mr. Chairman. The contract was for the construction of foundations and the installation of services for mobile homes and two-storey units at St. Sylvestre. The contractor was Nadeau et Frères Limités. The cost was a firm price one of \$127,135.75, as stated in my notes. Now, with regard to tenders, the information I have here indicates that as this was a classified project, tenders were invited from six Canadian firms considered best qualified to carry out this type of work, but only one tender was received, and that was a tender from Nadeau et Frères Limités. This was the only firm that tendered for the work. Its tender has been carefully analyzed and has been considered as fair and reasonable and in keeping with the work to be undertaken.

Mr. CHOQUETTE: Would you give us the names of the six firms?

Mr. HENDERSON: I do not have that information here.

The VICE-CHAIRMAN: You can get it after.

Mr. CHOQUETTE: I can get it. Do you have the number of the contract?

Mr. HENDERSON: The only reference I appear to have is a file number. I believe it may be pertinent to Defence Construction (1951) Limited. The file number is 122-7-12-S-13-24.

The VICE-CHAIRMAN: It would be a lot easier if you asked all the questions you want to ask, Mr. Choquette.

Mr. HENDERSON: This is the number of the file. Mr. Armstrong and I believe that it might be a clue to what you want, Mr. Choquette.

Mr. CHOQUETTE: I will conclude, as did Mr. Cardiff.

(Translation)

We do not know who is responsible in such matters. The Crown admits its responsibility to the extent of \$65,000, and I state again the suspicions I am entertaining that there was a hidden manoeuvre in the awarding of the contract to Nadeau et Frères.

(Text)

The VICE-CHAIRMAN: Now, Mr. Rondeau.

Mr. RONDEAU: No.

The VICE-CHAIRMAN: Mr. Ryan?

Mr. RYAN: Mr. Armstrong, am I right in taking from what you said that the department has its own staff of architects and engineers, and that they are used on most projects; but occasionally you have to bring in consultants?

Mr. ARMSTRONG: I said we normally have our designs done by consultants.

Mr. RYAN: Do I take it you do not have a large staff of architects and engineers?

Mr. ARMSTRONG: We have a considerable staff, I do not have the number here. They have to prepare the working drawings and plans before the consultant can proceed with the details.

Mr. RYAN: These would be the preliminary plans?

Mr. ARMSTRONG: Yes, and of course our people do the detailed drawings on some projects.

Mr. RYAN: When you speak of a consultant, do you go outside to an architect? But most architects employ their own engineers, and therefore you have a contract in each case with an architect as well as with the actual contractor who has the contract for your project.

Mr. ARMSTRONG: Yes.

The VICE-CHAIRMAN: If there are no further questions I wish to thank Mr. Armstrong, both in your name and mine, for having been an excellent witness and for having given the committee a lot of information.

Thank, you, ahead of time, for being on time on July 16 at 9:30 in the morning when we will have Mr. George Scott, the acting deputy minister of transport, to answer questions on the 1962 and the 1963 reports.

Mr. HALES: Further to what you said about Mr. Armstrong as our witness today, I think we all realize it is a pretty tough job for him to be in and to have to answer for all those in his department who have made errors or mistakes, and so on. However, I would think—and I always try to put myself in the other fellow's position—that tomorrow morning I would call in the heads of my engineering department and say, "Gentlemen, if you get me into these fixes next year, there will be some real trouble".

The VICE-CHAIRMAN: The meeting is adjourned.

APPENDIX

ARMY HEADQUARTERS

HQ 5850-4-8 (Mov 5)
HQ 1546-75/115 (D Mov)

OTTAWA 4, Ont 27 Aug 63

D MOV BULLETIN NO 63/11

MOVEMENT OF MOBILE TRAILER HOME
(HOUSE TRAILER)

- 1. The purpose of this bulletin is to outline the revised procedures for the Movement of a Mobile Trailer Home (House Trailer). Manual of Movement 301.31 is cancelled. The procedure in this bulletin is effective 1 Oct 63.
- 2. Definition—The term Mobile Trailer Home (house trailer) includes all types of mobile dwellings constructed for use as a residence and designed to be moved overland. They may be self-propelled or movable by towing. Baggage, utility, camping or farm trailers are not considered as mobile trailer homes or house trailers within the meaning of this Order.
- 3. Application—This Order applies to members who are bona fide residents of a mobile trailer home and the benefits prescribed herein shall be applicable only to the move of a mobile home within Canada or the USA. The following certificate is to be completed by the Serviceman before leaving his SOS-ing unit and shall be attached to his claim for reimbursement.

CERTIFICATE TO BE COMPLETED BY THE OWNER
OF A MOBILE TRAILER HOME

I certify that:

- a. I have resided permanently in mobile trailer home accommodation for the past months,
- b. such mobile trailer home is not ancillary to or maintained in conjunction with other permanent non-mobile accommodation.
- c. F&E for which claim for reimbursement is being made does not include any items NOT admissible such as in the list given me or exterior items acquired as a result of residence in a mobile trailer home but not essentially furniture and effects.

(Date)

(Signature of service member)

Note: A list of non-admissible items is to be reproduced locally and given to the claimant.

- 4. DND 522—An Order for Carriage or Storage of Furniture and Effects (DND 522) will NOT be issued for the movement of a mobile trailer home.
- 5. When a member tows his own mobile trailer home with his private motor car or truck, or drives it, if self-propelled, reimbursement shall not be made for the F&E carried therein. Reimbursement may, however, be made for that portion moved under para 6 b. of this order.

6. Subject to QR(Army) 209.84(2), a member who owns and occupies a mobile trailer home and who is authorized to move his F&E to his new place of duty shall be reimbursed for:

- a. the actual amount paid for moving the vehicle and contents by commercial road tow or rail and
- b. the actual amount paid for moving that part of his F&E by commercial road or rail carrier which cannot be carried in the mobile trailer home due to weight or space limitations.
- c. packing and unpacking, not in excess of the CWA rate (for the weight packed), when it is certified by the CO of the SOS-ing unit (or an officer delegated to make such examination) that these services were necessary for the preparing and securing of those items which require protection during the movement. Claims for reimbursement shall include the following certification:

CERTIFICATE OF NECESSITY FOR PACKING/UNPACKING SERVICES

I certify that packing and unpacking services performed—(name of mover)

by

were essential for the safe movement and protection of the admissible contents of the mobile trailer home, property of:

(Service No) (Rank) (Surname and Initials) (Unit)

.....

and that it contains only such items as are on the list of admissible items published in service regulations for the (CA(R)) and does not include any items that are built-in in the mobile trailer home. I estimate the weight of the items actually packed to be lbs.

(date)

(Signature of SOS-ing Unit CO)

.....

- d. additional charges for provincial, state or federal road, bridge and ferry tolls including any special transit permits.

7. Total reimbursement under para 6 above shall not exceed the hypothetical cost which would have been incurred had the entire quantity of admissible F&E been shipped by the most economical means.

8. Claims for reimbursement for interim lodging shall be limited to the number of days that a serviceman and his family are unavoidably separated from their mobile trailer home. Transit time for the move of the mobile trailer home normally shall not exceed the time allowed for travel by private motor car.

9. The member shall be entitled to the benefits of QR(Army) 209.85—Moving Allowance.

10. A member and his dependents shall be entitled to transportation and travelling expenses which would be applicable had they not been residents of a mobile trailer home.

11. Where an entitlement exists for storage of furniture and effects at public expense, F&E must be removed from the mobile trailer home and stored with a recognized storage company. Storage in transit charges are not allowable. No authority exists for the payment at public expense of the costs of storage of a mobile trailer home with or without its contents.

12. Claim for reimbursement shall be supported by:

a. When a move is by commercial road tow—

- (1) A copy of a haulers invoice supported by his published tariff or scale of rates;
- (2) The original receipt for provincial, state or federal road, bridge or ferry tolls including any special transit permits. Where a receipt is not obtainable, a member's certification of the amounts paid;
- (3) If the trailer is weighed separately, a weigh scale ticket showing the gross weight of the mobile trailer home; or
- (4) If the tractor is weighed with the trailer, a separate weigh scale ticket showing the gross weight of the tractor alone;
- (5) A weigh scale ticket or other documentary evidence from the manufacturer which establishes the tare weight of the mobile trailer home (tare weight is shell weight which excludes the built-in furniture and other contents);
- (6) A paid invoice for moving that portion of F&E allowed in para 6 b supported by a weigh scale ticket (or railway waybill);
- (7) Certificate of necessity for packing/unpacking services together with a detailed list of the items which required packing.

b. When a move is by rail—

- (1) A railway freight bill showing scaling particulars;
- (2) A weigh scale ticket or other documentary evidence from the manufacturer which established the tare weight of the mobile trailer home (tare weight is shell weight which excludes the built-in furniture and other contents);
- (3) A paid invoice for moving that portion of F&E allowed in para 6 b supported by a weigh scale ticket (or railway waybill);
- (4) Certificate of necessity for packing/unpacking services together with a detailed list of the items which required packing.

13. For the purpose of establishing entitlement to reimbursement, the hypothetical weight of F&E which could be moved at public expense shall consist of:

- a. the difference between the gross and tare weight of the mobile trailer, and
- b. the actual weight of any additional F&E moved by commercial road or rail carrier.

14. If the contents of the mobile home, as determined by 13 a. above, exceeds 3,000 lbs., the claim is to be supported by an itemized list of the contents including built-in furniture. The Commanding officer of the destination unit or an officer delegated by him, shall determine whether the individual items listed are admissible and consistent with the total weight claimed. Where the itemized list appears so large as to be unreasonable in relation to the size of the trailer, the CO of the destination unit or his delegated officer should make such further checks as appear necessary.

15. The following items and services are non-admissible:

a. ITEMS

- (1) Boats or parts of boats
- (2) Livestock, poultry and pets
- (3) Perishable foods deep freeze contents
- (4) or items requiring heat or refrigeration
- (5) Fuel, solid or liquid
- (6) Fuel drums
- (7) Patio stones, cement blocks
- (8) Outdoor barbecues (brick, stone or cement)
- (9) Lumber, building materials
- (10) Empty bottles, exclusive of preserving jars
- (11) Portable buildings, knocked down
- (12) Porches, fences.

b. SERVICES

- (1) Extra pick-up and delivery
- (2) Waiting time, delays
- (3) Insurance
- (4) Connecting or disconnecting to public utilities, i.e. light, heat, water, sewer.

16. This Order shall not be interpreted as either an additional benefit intended to assist a member in moving his mobile trailer home, which is his own responsibility, or an entitlement to storage of excess F&E; to which he would NOT be entitled were he resident in other than a mobile trailer home.

(M. W. Lawrence),
Colonel,
Director of Movements.

DISTRIBUTION

In accordance with Annex "A" to "D" Mov Bulletin No. 63/1.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

Public Accounts, Volumes I, II and III (1962 and 1963)

Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, JULY 16, 1964

WITNESSES:

From the Department of Transport: Messrs. G. A. Scott, Acting Deputy Minister; R. W. Goodwin, Director of Civil Aviation; H. J. Williamson, Chief, Technical & Policy Co-ordination, Telecommunications Branch and W. A. Ramsay, Chief Architect, Air; and Mr. A. M. Henderson, Auditor General and Mr. D. A. Smith, of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Grégoire,	Prittie,
Cameron (<i>High Park</i>),	Gray,	Regan,
Cardiff,	Harkness,	Rinfret,
Choquette,	¹ Horner (<i>Acadia</i>),	Rock,
Côté (<i>Chicoutimi</i>),	Leblanc,	Rondeau,
Crouse,	Legault,	Ryan,
³ Danforth,	Lessard (<i>Saint-Henri</i>),	Smith,
Drouin,	Loiselle,	Southam,
Dubé,	Mandziuk,	Stefanson,
Fane,	McLean (<i>Charlotte</i>),	² Stenson
Fisher,	McMillan,	Stewart,
Forbes,	Muir (<i>Lisgar</i>),	Tucker,
Francis,	Nowlan,	Wahn,
Frenette,	O'Keefe,	Whelan,
Gendron,	Pigeon,	Winch—50.
Grafftey,	Pilon,	

M. Slack,

Clerk of the Committee.

¹Replaced Mr. Ricard on Wednesday, July 15.

²Replaced Mr. Chaplin on Wednesday, July 15.

³Replaced Mr. Valade on Wednesday, July 15.

ORDER OF REFERENCE

HOUSE OF COMMONS,
Wednesday, July 15, 1964.

Order,—That the names of Messrs. Horner (*Acadia*) Stenson and Danforth be substituted for those of Messrs. Ricard, Chaplin and Valade on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, July 16, 1964
(22)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Vice-Chairman, Mr. Paul Tardif, presided.

Members present: Messrs. Berger, Cameron (*High Park*), Cardiff, Crouse, Fane, Francis, Frenette, Hales, Leblanc, Legault, McLean (*Charlotte*), McMillan, O'Keefe, Nowlan, Pilon, Stefanson, Stenson, Stewart, Tardif, Tucker, Wahn, Winch (22).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and *From the Department of Transport:* Messrs. G. A. Scott, Acting Deputy Minister, R. W. Goodwin, Director of Civil Aviation, H. J. Williamson, Chief, Technical & Policy Coordination, Telecommunications Branch, and W. A. Ramsay, Chief Architect, Air; and Messrs. Smith, Hayes and Laroche of the Auditor General's office.

The Committee resumed its consideration of the 1962 carryover items and the 1963 Report of the Auditor General.

The Vice-Chairman introduced Mr. Scott, who in turn, introduced Messrs, Ramsay, Goodwin and Williamson of his Department.

Paragraph 100, 101 and sub-paragraphs 20, 21 and 22 of paragraph 115 of the 1962 Report, and paragraph 84 and 85 of the 1963 Report, relating to the Department of Transport, were reviewed by Mr. Henderson.

Mr. Scott was examined, assisted by Messrs. Ramsay, Goodwin and Williamson.

The examination of the witnesses still continuing, at 10.50 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(23)

The Committee resumed at 3.40 p.m. The Vice-Chairman Mr. Paul Tardif, presided.

Members present: Messrs. Berger, Cameron (*High Park*), Cardiff, Crouse, Danforth, Fane, Frenette, Hales, Harkness, Leblanc, Legault, Lessard (*Saint-Henri*), McLean (*Charlotte*), O'Keefe, Nowlan, Ryan, Stefanson, Stenson, Tardif, Tucker, Whelan, Winch (22).

In attendance: Same as at morning sitting.

The Committee resumed consideration of the 1963 Report of the Auditor General.

On paragraph 86, *Montreal International Airport construction costs*, Mr. Henderson commented briefly. Mr. Ramsay was then examined and explained the design changes.

The Vice-Chairman tabled a report from the Minister of Finance on the Exchange Fund Account, which will be considered at the next sitting on Tuesday, July 21; copies of this report were distributed to members of the Committee.

On paragraph 87, *Catering contract, Montreal International Airport*, Mr. Henderson commented briefly, and was examined thereon, assisted by Mr. Smith.

Messrs. Scott, Ramsay and Goodwin were examined and supplied additional information.

Mr. Winch suggested that the steering subcommittee consider whether the Minister of Transport of that day should be requested to appear before the Committee. The Vice-Chairman advised that the suggestion of Mr. Winch would be considered by the steering subcommittee.

On paragraph 98, *Non-productive payments*, relating to the Department of Transport, Mr. Henderson commented on these payments and was examined thereon, together with Mr. Scott.

The questioning of the witnesses from the Department of Transport being concluded, the Vice-Chairman thanked them for the information supplied to the Committee.

At 5.15 p.m., the Committee adjourned until 9.30 a.m. on Tuesday, July 21, 1964.

M. Slack,
Clerk of the Committee.

Note—The evidence, adduced in French and translated into English, printed in this issue, was recorded by an electronic recording apparatus, pursuant to a recommendation contained in the Seventh Report of the Special Committee on Procedure and Organization, presented and concurred in, on May 20, 1964.

EVIDENCE

THURSDAY, July 16, 1964

(Text)

The Vice-CHAIRMAN: Gentlemen, we have a quorum. Would you please come to order.

First of all, I would like to welcome Mr. Stenson, who has been appointed a new member on the committee.

Second, I would like to introduce to you Mr. Scott, the acting deputy minister of transport, who is going to be the main witness this morning.

I would ask Mr. Scott if he would be kind enough to introduce the officials he brought with him in order to make his task and ours easier.

Mr. G. A. SCOTT (*Acting Deputy Minister, Department of Transport*): Mr. Chairman, I would like to introduce Mr. Goodwin, director of civil aviation; Mr. Ramsay, who is the chief architect of the department, and Mr. Williamson from the telecommunication branch of the department.

The Vice-CHAIRMAN: Thank you very much.

For the information of those who are going to use the simultaneous translation system may I say that the tables are wired but the chairs are not, so if you plug into the table you will know what is going on.

We are going to sit until 11 o'clock this morning and then again at 3.30 this afternoon. We will have to leave this room at 11 o'clock because the defence committee is sitting here.

The first item on the agenda this morning is paragraph 100 of the 1962 report.

I would ask Mr. Henderson at this time to make his comments in respect of that paragraph.

Mr. A. N. HENDERSON (*Auditor General of Canada*): Mr. Chairman, we have several paragraphs left in the 1962 report before we move over to the 1963 report.

As the Chairman stated, the first paragraph is number 100, entitled route facility fees receivable from air lines. Now, we discussed this subject in committee on June 16, and the evidence is available in the minutes of proceedings at pages 146 and 147. You may recall that I told you that subsequent to this paragraph appearing in my 1962 report the unpaid accounts had increased to \$5½ million up to March 31, 1963 when 22 air lines were involved. Some months later the Department of Justice expressed doubts concerning the legal validity of the regulation under which these fees were being assessed and in October, last year, the governor in council authorized the remission or return of fees paid or payable.

Perhaps you may recall that in December last year the Minister of Transport introduced a measure, Bill No. C-117, entitled an act to amend the Aeronautics Act which, in part, was intended to provide authority for the charging of such fees. However, to date this legislation has not been dealt with in the House.

The Vice-CHAIRMAN: Are there any questions on this particular paragraph?

Mr. McMILLAN: Mr. Chairman, I would like to put this question. Are our fees which we have been charging comparable to those of other countries?

Mr. HENDERSON: Perhaps Mr. Scott should answer your question.

Mr. SCOTT: Well, this was a particular type of fee which normally is not applied by countries in respect of aircraft. It had to do with aircraft which were operating across the north Atlantic and which, in fact, were overflying Gander. But, they were using the Gander facilities other than landing. Now, quite some few years ago the landing fees were based on the cost of providing the landing facilities plus the provision of facilities for area navigation. Of course, if the aircraft does not land you do not collect and as the government of Canada was supplying a very expensive facility and we were not recovering through the landing fee for the provision of these services, then this overflight charge was put into effect, and this was the \$64 fee.

Mr. McMILLAN: Is there any corresponding fee for planes going the other way across the Atlantic?

Mr. SCOTT: Do you mean transatlantic flights westbound?

Mr. McMILLAN: I mean on the European side.

Mr. SCOTT: No, there is no similar fee.

The VICE-CHAIRMAN: Gentlemen, are there any further questions on paragraph 100?

Mr. HALES: Do you feel there is anything further which can be done in respect of this until the necessary legislation is passed?

Mr. HENDERSON: I would think not, Mr. Hales. The bill is coming before the house for discussion which, presumably is, as I say, to provide authority for charging of such fees. I have been informed by Mr. Scott that there was a resolution put forward in parliament to introduce the bill but it has not proceeded any farther in the house. I understand it provides, in part, authority for the charging of such fees.

Mr. HALES: Would we be able to make these fees retroactive?

Mr. HENDERSON: I am not sufficiently familiar with the proposed legislation. Perhaps Mr. Scott would say a word in that connection.

Mr. SCOTT: I do not think that would be possible, sir.

The VICE-CHAIRMAN: We will now proceed to the next paragraph, which is number 101, which deals with expenditure incurred without treasury board approval.

Mr. Henderson, would you care to make your comment on this paragraph.

Mr. HENDERSON: Mr. Chairman, we discussed this matter in committee on June 16 and the evidence is available in the minutes of proceedings at page 148.

The comment here explains how a \$35,000 saving by the Department of Transport on sculpture planned for the lobby of the new Montreal international airport was subsequently expended on additional drapes and other furnishings not originally provided for in the original specifications. This was done without obtaining further treasury board approval. I was later informed by the secretary of the board that the saving should not have been used without prior reference to the board. However, the department felt they were entitled to do this without obtaining any further treasury board approval, having achieved a saving in the first instance. Hence, an important principle is involved here, as several of the members will recall when we discussed it on June 16. Therefore, the committee might like to discuss the point with Mr. Scott.

Before Mr. Scott speaks I might remind you we shall be discussing the over-all costs of construction of the new Montreal international airport today with Mr. Scott under paragraph 86 in my 1963 report.

The VICE-CHAIRMAN: Does the committee feel that this paragraph should be left over until we discuss the construction of the Montreal international airport at a later time today?

Mr. HALES: I think this is an individual and special case and it should be handled separately.

The VICE-CHAIRMAN: Then, are there any questions in respect of paragraph 101?

Mr. WINCH: Mr. Chairman, could we have the explanation from Mr. Scott.

Mr. SCOTT: Well, Mr. Chairman, we, in the department, felt we had secured approval of a program, which included the furnishings and the completion of the interior of the terminal building. We did not feel that the item of sculpture should be treated differently from the items of furnishings, fixtures or drapes because these all had been in the program we put up and we were given approval for that program. Therefore, within the limits of the approval given when it was decided not to go ahead with the item of sculpture, in view of the fact we were going to need additional fixtures and furnishings, this money being available and the fact it was in the over-all approval, it appeared odd to us to have to go back to treasury board to ask for additional money for additional furnishings in the building when we were sitting with \$35,000 under what we considered a general approval. Treasury board felt the item of sculpture was a particular item and if there was any change in respect of this we should have gone back to them. It was just the difference between the way the department considered it and the way treasury board looked upon it.

The VICE-CHAIRMAN: As Mr. Nowlan was on treasury board at this time I wonder whether he would be familiar with this particular paragraph.

Mr. NOWLAN: I do not recall it, Mr. Chairman.

The VICE-CHAIRMAN: I presume the Chairman is not supposed to ask questions but I am a little curious in this connection. I am wondering whether that \$35,000 was earmarked for this particular purpose.

Mr. SCOTT: I am advised not.

Mr. WINCH: In a situation such as has been outlined when there is a difference of opinion between the department and treasury board which has the authority as to the opinion?

The VICE-CHAIRMAN: I do not think this opinion actually was submitted to treasury board for approval.

Mr. WINCH: But treasury board said they should have obtained approval.

Mr. NOWLAN: Yes, afterward.

Mr. WINCH: Yes, I realize that, and it seems to be a bad habit with some departments to confront us with a *fait accompli*, and then get approval of something that is done.

The VICE-CHAIRMAN: Have you a question, Mr. Hales?

Mr. HALES: Mr. Scott, no doubt your department would estimate your furnishings and so on which this \$475,000 was to be made up of, so you would have all the furnishings, and so on, listed. You say in this estimate there was not a figure of \$35,000 for sculpture work.

Mr. SCOTT: Subject to confirmation, I believe an estimate was made of the cost of furnishings and fixtures that would be put in, and this would come to \$475,000, which is the approval we asked of treasury board.

Mr. HALES: Was there an item in this estimate you prepared for \$35,000 for art or sculpture?

Mr. SCOTT: I do not think we list any of the particular items that go in, but within our own planning within the department—

Mr. HALES: If I may interrupt, how did you arrive at the figure of \$475,000?

Mr. SCOTT: Because the architect made up an estimate based on what was to go into the building and, therefore, in their own figures in the department they would have the item of sculpture listed.

Mr. HALES: The architects have the item of sculpture listed.

Mr. SCOTT: Yes.

Mr. HALES: Well then, this sculpture was singled out as \$35,000 by the architect?

Mr. SCOTT: This is right, yes.

Mr. HALES: I thought we were just told that it was not.

Mr. SCOTT: Not when it was put up to treasury board, sir. It was put up to treasury board on the basis of the approval of the expenditure contemplated.

Mr. HALES: There would appear to be a pretty fine line drawn here.

Mr. SCOTT: Well, this is it; we feel, being responsible for the carrying out of these projects, that we should have freedom of management within the authority given by treasury board, and that if \$475,000 was approved for furnishing the building, then we should have some leeway in here to change and to do certain things as best we see fit but still staying within the limits of approval. If you carried this to a ridiculous extreme it would mean that if we changed the type of chairs that we were putting in we would be required to go back to treasury board for approval, and this would seem a rather difficult way to administer a project like this.

Mr. HALES: Did you accept the architect's suggestions in respect of furnishings?

Mr. SCOTT: The department did, yes.

Mr. HALES: And, in that list the architect suggested a figure of \$35,000 approximately for the sculpture?

Mr. SCOTT: Yes.

The VICE-CHAIRMAN: You are next, Mr. Wahn.

Mr. WAHN: I would like to be entirely clear on this. As I understand from the evidence the accepted tender included \$35,000 for sculpture. It says here:

The accepted tender included \$35,000 for a work of sculpture to be located in the lobby of the building.

Mr. SCOTT: I am advised there was no tender called on the sculpture.

Mr. WAHN: In any event, I gather from the preceeding answers, whether or not a tender was called, the architect listed this particular item at \$35,000. Am I right in this assumption?

Mr. SCOTT: Yes, in the estimates.

Mr. WAHN: Was there any reference whatsoever to the item of sculpture, not necessarily specifying the amount, in the submission to treasury board.

Mr. SCOTT: Yes.

Mr. WAHN: So, there was a reference to the item of sculpture in the submission to treasury board but a price tag merely was not put on it?

Mr. SCOTT: That is right.

Mr. WAHN: Mr. Chairman, I could see quite clearly that if the department wanted to change the colour of the drapes from blue to gold, or to red, quite obviously they should be allowed to do so, or if they wanted to change one type of door to another type of door this is surely something in which they should exercise some discretion; but, an item of sculpture is something which presumably lasts indefinitely, whereas drapes and other furnishings are more

temporary in nature. So, I think there is quite a difference between an item of sculpture and items of drapes and furnishings. On the other hand, two types of drapes are in the same category.

In the Toronto airport there are many items of sculpture, paintings and welded objects hanging from the ceiling, some of which are attractive and interesting and others which may not be; nevertheless, they represent quite a substantial investment. I realize the amount here is \$35,000, whereas in respect of the Toronto airport half a million dollars might have been spent. Is it suggested that you could delete all these paintings and sculpture in the Toronto airport, these murals and so on, and replace them by additional drapes, chairs, tables and furnishings?

It seems to me there must have been some discussion within the department in respect of treasury board's authority before they made this decision. This did not concern a switch from one drape to another but a change of category. I think perhaps the department decided they would run the risk of making the switch. This might be an unfair statement to make but it would appear to me that this must have been discussed by your officials in the department.

The VICE-CHAIRMAN: If I understand what you mean, Mr. Wahn, you are suggesting that this type of leeway should not have existed in this particular case or in similar cases.

Mr. WAHN: Well, I think there certainly is a difference between ordinary items such as drapes and so on and a piece of sculpture.

Mr. SCOTT: You must remember this was the first case. You made reference to art in the other terminal buildings. At that time we had no general policy approval whatsoever from treasury board in respect of artistic work and, as I say, at the time we looked upon this purely as part of the furnishings. At least, this was the department's view. However, since that time treasury board has looked upon the art aspect separately and has given a general policy in respect of it. So, the situation today is certainly different from what it was before, and it affirms what you have stated. But, this case in Montreal was the first.

The VICE-CHAIRMAN: Would you proceed, Mr. Winch.

Mr. WINCH: Mr. Chairman, I have one question. Would I be correct in assuming that your idea was to drop the \$35,000 in respect of sculpture and apply it to other furnishings because there was that amount unestimated in respect of drapes and other furnishings and, in view of that fact, you spent the \$35,000?

Mr. SCOTT: No.

Mr. WINCH: Then, why did you need the extra \$35,000 for drapes?

Mr. SCOTT: It was decided not to go ahead with the sculpture.

Mr. WINCH: Then why did you use the money on drapes and other furnishings when under the architect's estimate he must have included the cost of drapes and furnishings.

Mr. SCOTT: I am not sure what the additional money was spent on. It could have been because the cost of the other items being put in was somewhat more than the estimate.

Mr. WINCH: This is exactly what I was referring to. But, a clear decision was made not to go ahead with the item of sculpture and it was not on the basis of a saving.

The VICE-CHAIRMAN: It is the difference in cost between ordinary furniture and prestige furniture.

Mr. WINCH: I am wondering why they spent the \$35,000 which they did not need for the sculpture.

The VICE-CHAIRMAN: It was the difference between ordinary furniture and prestige furniture.

Mr. WINCH: Well, obviously either they put in more expensive things or they underestimated what it was going to cost.

The VICE-CHAIRMAN: You are next, Mr. Cameron.

Mr. CAMERON (*High Park*): Between Mr. Wahn's and Mr. Winch's questioning and your ability to condense a large problem into a nutshell my questions have been pretty well answered. It would strike me, however, that they did not take a hard enough look at this item of \$35,000. They just found this extra amount of \$35,000 to spend and they went ahead and spent it. I do not think you really could have spent very much time thinking out the problem when you went ahead and used this \$35,000 for other items when the item of sculpture was cancelled. I think this would be outside the leeway which should be given to anyone who is furnishing a building. In my opinion, this is something special. I think this is a matter of not thinking the problem through to a logical conclusion.

Mr. SCOTT: If I might comment on this, I think if we had gone ahead with the sculpture we would have had to go back to treasury board for some additional money in order to cover the cost of the other items of equipment. The decision had been taken not to go ahead with the sculpture and when we found we needed the additional money to complete the furnishings we did so because we felt this money was included in an approved program.

Mr. CAMERON (*High Park*): But I think you are bypassing the issue. It might have been so that you would have had to go back to treasury board. You might have had to do that in any event. But, in my opinion, it would have been much better if you had gone back and obtained their approval than to say: "we have \$35,000 normally allotted for an item; as we are not going to put that item in we will use that extra money to keep us within our estimate."

Mr. SCOTT: Well, there is a policy in existence now which takes care of this.

Mr. CAMERON (*High Park*): The general public will get the idea that as we had \$35,000 on our hands which was covered by treasury board approval we just went ahead and spent it and there is no control over it.

The VICE-CHAIRMAN: Would you proceed, Mr. Hales.

Mr. HALES: I think my question has been answered, Mr. Chairman. If I may sum up, it would appear that in the first place the department did get permission to spend \$35,000 on a piece of sculpture.

Mr. SCOTT: Not as a separate item.

Mr. HALES: Well, the architect gave you a list of furnishings, including sculpture to the extent of \$35,000, and you or the department accepted the architect's recommendations.

Mr. SCOTT: Yes.

Mr. HALES: Then there was \$35,000 included in his recommendations for a piece of sculpture?

Mr. SCOTT: Yes.

Mr. HALES: We have established that the department then decided not to spend the money on sculpture so your department then took it upon itself to spend it for something else. I think this is where the committee feels that a rather dangerous precedent is being set. It is our job as members of this public accounts committee to see that this does not occur too often or, in fact,

does not occur at all. I think we have established that point, Mr. Chairman. I have nothing further to add at this time.

The VICE-CHAIRMAN: Have you a question, Mr. Pilon?

Mr. PILON: My question has just been answered, Mr. Chairman.

The VICE-CHAIRMAN: Would you proceed, Mr. Nowlan.

Mr. NOWLAN: Mr. Chairman, I was going to ask if the department approached treasury board only once for the over-all amount in respect of the building or if, in fact, they approached it on several occasions with increased amounts?

Mr. SCOTT: Just once for the furnishings.

Mr. NOWLAN: But, I am referring to the over-all building, the building and furnishings.

Mr. SCOTT: Oh, there were changes in the building and other costs in respect of which we had to go back to treasury board.

Mr. NOWLAN: You had to go back to treasury board?

Mr. SCOTT: Yes.

Mr. NOWLAN: And, on more than one occasion.

Mr. SCOTT: Yes.

The VICE-CHAIRMAN: You are next, Mr. Stewart.

Mr. STEWART: Would it be relevant at this time to ask what the present procedures are. How would the present procedures have applied if they had been in effect when this particular instance came to the attention of the department?

The VICE-CHAIRMAN: Would you care to answer that question, Mr. Scott. I do not know whether or not your question is clear to Mr. Scott; it certainly is not clear to me.

Mr. STEWART: Mr. Scott has told us that certain changes have been made and I am asking him now what, in fact, in practice, would have been the result if the present procedures had been in effect at the time this particular instance took place.

Mr. SCOTT: Well, this definitely would have been a separate item, for which we would have had approval, to begin with, and it would not be included in the other items.

Mr. STEWART: In other words, you are telling the committee that when you went initially to treasury board you would have given them a much more specific breakdown of the items being authorized by treasury board?

Mr. SCOTT: Yes. There certainly would be a division between furniture and drapery and things like this on the one hand and works of art, if you like, on the other hand.

The VICE-CHAIRMAN: If I may, I would like to ask a question. If the treasury board had been requested to change the amount of \$35,000 from an item of sculpture to drapes, or other furnishings, and they had said no, would the Montreal airport have had the sculpture, or would the \$35,000 have been returned to treasury board?

Mr. SCOTT: I think the practical answer must be that only part of the \$35,000 would have been returned to the treasury board, because if you take the \$35,000 out of the program which was approved, we were short the funds to complete the inside furnishings.

The VICE-CHAIRMAN: Are there any further questions on paragraph 101?

Mr. CARDIFF: Do you intend to ask for the money for this work of sculpture, or has the matter been dropped?

Mr. SCOTT: It has been dropped.

Mr. CARDIFF: You do not intend to have it?

Mr. SCOTT: No.

Mr. CARDIFF: The amount of \$475,000, including \$35,000 for sculpture, was approved, and then the department decided it was not going to spend this on sculpture, but spend it on something else without approval. As I see it, that is the only point. They did not spend more money than was approved by treasury board, but they spent it in a different way without approval?

Mr. SCOTT: Yes, sir; it was without specific approval, but as I say this was the first case we had had where an item of art of any type was involved and we considered this to be part of the interior furnishings of the building. When it was decided within the department not to go ahead with the sculpture, we shifted the interior decorations, and this is the result. We felt that so long as we kept within the over-all amount authorized by treasury board we were all right.

Mr. WINCH: What is important is that it does not happen again.

Mr. STENSON: Mr. Scott said that he felt they would have had to go back for some more money. Would you have gone back for \$35,000?

Mr. SCOTT: It was less than \$35,000.

Mr. STENSON: It would have been less than \$35,000.

Mr. SCOTT: At that time, yes.

Mr. STENSON: Where did the remainder of the \$35,000 disappear to; did it go into some furnishings which probably you did not need?

Mr. SCOTT: In total we spent the \$475,000.

The VICE-CHAIRMAN: We will turn now to paragraph 115 dealing with non-productive payments.

Mr. HENDERSON: We now turn to the listing, non-productive payments, which is paragraph 115 on page 54 in the 1962 report, which you will recognize is the listing we were discussing the other night.

We might now deal with the three items on page 60, items 20, 21 and 22, which are the three cases involving a total of \$52,140 paid out by the department, arising from deficiencies in plans and specifications at Kenora, a re-assessment of space requirements at Victoria, British Columbia air terminal, and postponement of original installation plans at the Halifax air terminal.

Mr. WINCH: Mr. Chairman, in view of the fact that these all appear to be based on what the contractors maintain were faulty plans and specifications, might we hear from Mr. Scott in respect of why the plans were wrong and he might tell us who does the drafting of them. Do you have a department which does this, or do you hire outside architects?

Mr. SCOTT: We have architects within the department. With regard to standard buildings or other buildings which we need at airports, our own architects do this, and we have so-called general plans which can be modified or changed slightly for different circumstances. When it concerns a major terminal building, preliminary plans are drawn up by the architects of the department and an outside architect is brought in to further develop plans, working along with the architects of the department.

Mr. WINCH: It is alleged that the plans here were faulty.

Mr. SCOTT: I think the circumstances are a little different in each case. In respect of Kenora, item 20, this is a case where some double houses and some other small things were concerned. The plans, as drawn up by the department, showed facilities on one side of the double houses, which would be standard, because on double houses they must be duplicated on the other side. Tenders were called. One tenderer bid substantially lower than the other three.

Then, before the contract was signed he claimed he did not understand that there would have to be plumbing facilities put in both sides of the double houses, and therefore he wanted to renegotiate. It was proposed that this might be at somewhat more than he had tendered, but nevertheless less than the second lowest tender.

Now, on this point the department is very careful, because obviously at this stage the tenders have been opened and everyone knows the bids. If you negotiate on a basis like this, then, of course, the other higher tenderers feel they have been prejudiced and are at an extreme disadvantage. When we looked at the tendered bids, it was obvious that the lowest tender was considerably lower than the others. Therefore, rather than negotiate, the department thought it would be prudent to call again for tenders; this was done. The result of the tender call was that a new price was obtained which was higher than the first very low tender, which was not accepted, but was less than the second lowest tender of the first group of bids.

Mr. WINCH: Do I understand what seems to be an entirely extraordinary situation. By the way, my trade is in the construction industry. Do you mean that when your department sets out the plans and specification for a duplex building, you show only the plumbing installation in one of the units and that you do not have a complete set of plans for a duplex house?

Mr. SCOTT: I understand this has been the practice.

The Vice-CHAIRMAN: I never heard of that before.

Mr. WAHN: My question is on item 1. Is it in order to switch?

The Vice-CHAIRMAN: Yes.

Mr. STEWART: May I ask a question on this item first?

The Vice-CHAIRMAN: Yes.

Mr. STEWART: Am I to understand that all the other tenderers understood that the facilities were to be those suitable for a double dwelling?

Mr. SCOTT: Yes, sir.

Mr. STEWART: It is just this one bidder who did not understand your plans?

Mr. SCOTT: Yes, sir.

Mr. HALES: Mr. Scott, if it is a fact that all the other contractors understood the plans and specifications included both sides of the houses, why then could you not hold the tenderer to his tender which was accepted?

Mr. SCOTT: Well, looking at the difference in the tendered bid and the other three tenders, there was such a difference here that it was felt this man certainly had bid extremely low and would not be able to complete the contract at that price. He, himself, was the one who wanted to renegotiate and escalate it into a higher price.

Mr. WINCH: I have a supplementary question. I think this is something which must be in the minds of all members of the committee. What kind of contractors do you deal with if they think they can put up a duplex house and only have the plumbing in one unit?

Mr. SCOTT: We try to deal with very few like that.

Mr. STENSON: It seems that there was a loophole here so that the people could get out of it; the plans did not specify plumbing in the other side which let this fellow out. Do you not think this is a fault in your own department or in the department which drew up the plans?

Mr. SCOTT: We certainly will not allow the same thing to take place again.

The Vice-CHAIRMAN: Was the deposit confiscated or was it returned to the lowest bidder who asked to be let out?

Mr. SCOTT: I believe the deposits were returned and new tenders were called.

Mr. HALES: Who drew the original plans and specifications?

Mr. SCOTT: The architects of the department.

Mr. HALES: Of the Department of Transport?

Mr. SCOTT: Yes, sir.

Mr. HALES: Who was responsible for that department?

Mr. SCOTT: I beg your pardon?

Mr. HALES: Who is chief of that department?

Mr. SCOTT: My Ramsay, who is here, is our chief architect.

Mr. HALES: Would Mr. Ramsay like to speak to this subject?

Mr. W. A. RAMSAY (*Chief Architect, Air, Department of Transport*): Mr. Chairman, I do not have anything to add further to Mr. Scott's comments; they were to the point.

Mr. HALES: You agree that the plans and specifications were in such a form that this original tenderer could get out of his contract?

Mr. RAMSAY: Yes, I do. The architect in charge of this work was an elderly gentleman. He is no longer with the department. He did not check it. It should have been checked, but was not.

Mr. HALES: As chief of the department, do you feel that he should have checked these plans?

Mr. RAMSAY: Yes, he should have checked them.

Mr. WAHN: May I query an item which I do not quite understand? In the first paragraph it says that the department entered into an agreement to supply natural gas to take effect on November 1, 1960—

Mr. HENDERSON: May I point out that I think you are referring to an item which we discussed the other evening, which had to do with the pipe line company at Cold Lake. This is with reference to the Department of National Defence and not the Department of Transport. We are now dealing with the Department of Transport on items 20, 21 and 22 on page 60.

Mr. CAMERON (*High Park*): I notice a slight discrepancy between Mr. Scott's statement and the statement made by Mr. Ramsay. I understood Mr. Scott to say that they prepare the plans showing the facilities on one side only, on the assumption that any tenderer would know that you have to duplicate them on the other side. Mr. Ramsay, however, said that it was the architect's fault. If it is as Mr. Scott has stated it, then I would say that the department was not at all at fault; they prepared the plans, sent them out, and the man should have known that facilities had to be provided on both sides. However, I understand from Mr. Ramsay that it should have been pointed out on the plans that the plumbing was required for the two houses, and that this had not been done. On one theory I would say the department was not to blame, and, on Mr. Ramsay's explanation, I would say you were to blame.

Mr. SCOTT: While the plans always were drawn up in this way and most contractors understand them, the prudent thing is to have a notation right on there stating that this is to be in duplicate.

The VICE-CHAIRMAN: Is it not the policy in your profession that when anything is not marked on the specifications, plans, or both, it becomes an extra?

Mr. RAMSAY: Yes, indeed.

The VICE-CHAIRMAN: If there are no further questions on paragraph 115, we will go on to the 1963 report.

Mr. CARDIFF: After the second tender had been called, a tender was accepted at \$141,712 and it cost \$142,096. The contractor claims this is because

of deficiencies in the specifications. This is the second time, then, in one contract where there have been deficiencies. Why is this?

Mr. RAMSAY: I do not understand the question.

The VICE-CHAIRMAN: Would you rephrase your question?

Mr. CARDIFF: The second time the contractor tendered for \$141,712 and the work was completed at a figure of \$142,096, and he claimed the difference is owing to deficiencies in the specifications. Why did this happen in the second case?

Mr. RAMSAY: The difference between the tendered price and the final payment was owing to the fact that some additional work was added on at unit prices. This was included in the contract.

Mr. LEGAULT: Perhaps I should direct my remarks to Mr. Winch who told us that this was his particular line of business in life. I think the department certainly made a good move in retendering because otherwise the error would have been much more serious had the contractor started work on the original contract. Definitely, as Mr. Winch has indicated, the specifications should have indicated that the plumbing was to be in the two units. Therefore, I do believe it was quite normal to readjust. However, the error was not very serious and is something which was corrected; otherwise it could have been much more serious.

The VICE-CHAIRMAN: Mr. Francis.

Mr. FRANCIS: I would like to speak to item 21.

Mr. WINCH: Over the years, on a great many occasions, I have had to deal with plans in which there was a duplication, but on the actual blueprint there always was a notation in the specifications that there had to be a duplication. I take it from what Mr. Ramsay has said that this was not indicated on the plans or in the specifications.

The Vice-CHAIRMAN: I think Mr. Ramsay already has told us that once.

Mr. LEGAULT: I would like to ask Mr. Winch—

The Vice-CHAIRMAN: I do not wish to interrupt you, but you must direct your question to the witness. Mr. Winch is a member of the committee and not a witness.

Mr. LEGAULT: It is a very normal procedure to have these adjustments as you go along; I am referring to the difference between the \$141,712 and the \$142,096. That would be very normal?

Mr. SCOTT: Yes.

Mr. FRANCIS: My questions have to do with item 21 in paragraph 115, in respect of the Victoria international airport. The firm of architects which was engaged to design and supervise construction apparently worked on three sets of plans for which they were paid \$29,660. Were there any negotiations? I am commenting on the Auditor General's statement:

At the year-end the same architects had been engaged to prepare plans for a still more modest project.

Was there any modification of the usual terms in the later re-engagement, taking into consideration the fact that already they had been paid \$30,000 and presumably might have been in possession of information concerning this project which might have permitted them to proceed at a rate slightly less than the usual rate for the third and final version. Was there any negotiation with regard to a reduction in the scale of fees?

Mr. RAMSAY: When an architect is engaged to prepare plans, he has a contract which pays him a proportion of his total fee for the preparation of study plans and sketch plans to start with. When the scheme was changed,

this proportion of the total cost was studied and compared against the time spent by the staff of the architect, and the costs, and the settlement was made on that basis, having in mind that the settlement would carry through into a reduced fee on the succeeding work.

Mr. FRANCIS: You anticipated a fee on the succeeding work which would be less than the full scale of fees had the firm been engaged anew?

Mr. RAMSAY: Yes.

Mr. FRANCIS: I think it is normal that when there has been an abandonment and further plans are prepared, it is slightly less.

Mr. RAMSAY: Yes.

Mr. WINCH: I think the logical question here on which we would like to have a definitive answer is what type of planning goes on in your department when you draft a set of plans and then discard them, and draft another set of plans, discard them, and then have a third set of plans. What kind of original thinking is done in your department when a situation like this occurs?

Mr. SCOTT: Mr. Chairman, the planning for the Victoria terminal building began about 1958-59. At that time there was a tremendous volume of air traffic moving between Vancouver and Victoria. The trend indicated that in all likelihood this was going to increase. Therefore, estimates were made on the basis that this air traffic was increasing. I believe there were flights in the order of 18 and 20 a day, and the load factor was very high. This is a basic factor which must be taken into account in your planning, because you have to consider how many customers you are catering to, the facilities you will provide, and how you will route the customers through the terminal building. If you have a large number, you have an entirely different problem than if you have a small number.

At this time, the ferry services between Vancouver and Victoria were almost going out of business. There was no indication whatsoever of any change taking place in the direct Vancouver-Victoria service. There were other ferry operations there, but not directly into Victoria. However, when we were part way through the plans the service between Vancouver and the island did change and there was a drop in the air traffic. This immediately meant that if we continued with the first plan, we would substantially overbuild. A re-assessment was made, and this led to the second plan. The ferry service which was put in was an extremely good one and was very well patronized. The amount of air traffic dropped considerably. Over a period of two to three years the traffic dropped as much as 68 per cent. Therefore, it was quite evident, even on the second plan, that we should not go ahead on that basis. Just because there was some sort of a commitment it would be foolish to go ahead, and it would be a waste of funds. The terminal building plan had to be scaled back again and re-scheduled to handle the lesser volume of traffic. This basically is it.

Mr. McLEAN (*Charlotte*): Well then, you saved the taxpayer quite a lot of money by wasting a little with the architects.

Mr. SCOTT: Yes, that is correct.

Mr. FRANCIS: I understand that the airport is quite a substantial distance away; it is at the other side of the island.

Mr. SCOTT: Yes.

Mr. FRANCIS: Then it does not compete with the ferry?

Mr. SCOTT: It is an excellent ferry service.

The VICE-CHAIRMAN: Have you a question, Mr. Stenson?

Mr. STENSON: Yes. I would like to ask Mr. Ramsay if this was a fair fee to pay to an architect when you withdraw plans in a case like this?

Mr. RAMSAY: Yes. This is a general arrangement not only within the government service but outside of the government service.

Mr. HALES: Mr. Scott, what is the present situation? Where do we stand at the present time in respect of this terminal building?

Mr. SCOTT: It is just about completed, sir.

Mr. HALES: I do not suppose you could give any thought to discontinuing it entirely. We still have to have it.

Mr. SCOTT: There is still a fair volume of traffic there.

The VICE-CHAIRMAN: If there are no further questions in respect of this paragraph we will proceed to paragraph 84 in the 1963 report, which reads:

84. *Radar equipment acquired but not put into service.* In 1958-59, airway and airport surveillance radar systems were placed in commission at 15 Canadian airports in order to provide improved facilities for air traffic control. The individual installations required considerable construction at some airports in order to provide accommodation for the radar terminal equipment in the control towers, and related facilities.

At the lakehead airport, due to the nature of the terrain, it was found necessary to instal the surveillance system on a height of land about 12 nautical miles from the airport and to have a communication link to relay the radar information from there to the airport control tower. In March 1959 the Department of Transport acquired a microwave radar relay system at a cost of \$182,000 to provide the necessary link between the surveillance system and the airport control tower. As space in the terminal building was not available to house all the airport radar equipment, it was decided to construct a temporary building at the remote site to accommodate some of the equipment and to provide a link to the airport control tower by radio circuit until such time as the terminal building facilities were enlarged to accommodate all the radar terminal equipment. It was regarded as impracticable to put the microwave link into service until this had been done.

At March 31, 1963, four years after acquisition of the microwave radar relay system, it was still in storage, and the preparation of working drawings and tender documents for enlarged terminal facilities had not yet reached the final stage. It would now appear that at least five years will have elapsed between the time of acquisition of the microwave system and its being put into service. Thus, equipment valued at \$182,000 and of a kind subject to rapid technological improvement will have remained in storage for five years because of failure to provide necessary equipment accommodation.

Mr. STEWART: There is subparagraph 22 here. In connection with this paragraph, I would like to know why it was decided to modify the design for the air conditioning system. I am sure the climate did not change. What was the factor that led to this change in planning?

The VICE-CHAIRMAN: Mr. Scott, would you answer that question. Perhaps it would be better answered by Mr. Ramsay.

Mr. RAMSAY: Mr. Chairman, the Halifax terminal building was designed with what is known as a split system of ventilation and heating. The ducts which carry the air through the building were designed to carry either hot air or cooling. In the original tender call the cooling coils were not included; it was designed so that the cooling coils could be subsequently installed. Part way through the construction of the building the department decided that in line with installations of air conditioning at the Montreal terminal building and the Ottawa terminal building we also should instal air conditioning at Halifax. The consultants were advised to complete the plans and designs for air con-

ditioning at Halifax. But, a further study indicated that at that time it was not absolutely necessary and the department saved the money in respect of the air conditioning installation. However, this represents the fee to the consultants for the design which was subsequently abandoned.

The VICE-CHAIRMAN: If there are no further questions we will go to paragraph 84 at page 52 of the 1963 report, which deals with radar equipment acquired but not put into service.

Would you make a comment in respect of this paragraph, Mr. Henderson.

Mr. HENDERSON: Paragraph 84 in the 1963 report outlines the circumstances under which a microwave radar relay system costing \$182,000 remained in storage for five years because lack of accommodation for associated facilities at the lakehead airport prevented its being placed in operation.

Mr. McMILLAN: Has this been placed in operation yet?

Mr. H. J. WILLIAMSON (*Chief, Technical and Policy Co-Ordination, Telecommunications Branch, Department of Transport*): Mr. Chairman, in reply to Dr. McMillan's question, the equipment is in the process of being installed at the present time. It was related to the completion of the modifications to the terminal building which had been delayed for various reasons, as mentioned in the report.

I would like to correct what is perhaps a misinterpretation of phraseology in that it is not radar equipment but only the remote link, which is a microwave connection from the remote point to the airport which had not been used, and this particular equipment was purchased in anticipation of the building having been completed earlier than has been the case. Also, it was to take advantage of a mass production price, which we were able to use, by getting one of a large production of similar type of equipment which was manufactured for the F.A.A. in the United States. We felt there was considerable economy in purchasing the equipment at the time it was purchased because if we had bought one of a kind it would have cost us more.

The VICE-CHAIRMAN: When you speak of economy, do you consider the cost of carrying that in respect of the capital investment? After all, it is being carried for five years. In this case was there still an economy?

Mr. WILLIAMSON: Yes.

The VICE-CHAIRMAN: Was it large?

Mr. McMILLAN: Did any of the equipment become obsolete in the meantime?

Mr. WILLIAMSON: No, sir. It is being utilized now.

Mr. HALES: Is it usable?

Mr. WILLIAMSON: It is being installed and is quite satisfactory.

Mr. HALES: I do not believe it is unusual to be four years out since there is normally four years between the buying of the equipment and getting the building to put it in.

Mr. WILLIAMSON: This is partly answered by the discussion on the previous item in respect of the delays and changes that have to be effected in terminal buildings and the question of when they can be implemented. But, when it was bought we did not anticipate any delay in the completion of the terminal building.

Mr. HALES: Where have you been storing it?

Mr. WILLIAMSON: On the site.

Mr. HALES: Did you pay storage?

Mr. WILLIAMSON: No, sir, not that I am aware.

Mr. HALES: This was not a matter of accelerated buying in respect of the estimates of your department, that this money was allotted to the department in the estimates and you went ahead and bought it because the money had been allotted?

Mr. WILLIAMSON: No, sir. It was part of the regular thing, and also to take advantage of the fact there was a chance to buy at a good price because of the large F.A.A. order. But, at the same time, it was anticipated what our needs would be in the normal lead time in respect of the procurement of equipment because we needed the other radar equipment which was put in use, and the actual radar equipment was utilized by operating it without the remote facility. The staff were located at a point some distance from the airport and operated the facility on that basis during the interim.

Mr. HALES: Perhaps Mr. Scott could tell the committee why we delayed four years in this building? What were the factors involved?

Mr. SCOTT: I think maybe Mr. Ramsay knows the situation better than I do. I am not too familiar with the terminal building problem there.

Mr. RAMSAY: A new terminal building had been completed in 1953 or 1954 and just following that the air lines moved into an era of a newer type of aircraft and there was no indication whether or not this type of aircraft was going to overfly the lakehead area, and until the operation of newer type of aircraft became clarified the planning of the terminal building was deferred until we knew what the traffic load was going to be.

Mr. WAHN: Mr. Chairman, I am not entirely clear in respect of the amount of \$182,000. I gather there was a piece of equipment that was in use for a period of time. Was the cost of that \$182,000?

Mr. SCOTT: Yes.

Mr. WAHN: So, the actual piece of equipment that was not used at all cost \$182,000?

Mr. WILLIAMSON: Yes.

Mr. WAHN: If you had bought that as a single item at that time what would the cost of that piece of equipment have been?

Mr. WILLIAMSON: Approximately twice that.

Mr. WAHN: And, by ordering at that time you saved \$182,000?

Mr. WILLIAMSON: Somewhere in that neighbourhood.

Mr. WAHN: Well, then, that purchase seemed to make sense because the interest on the money at 5 per cent would amount to \$10,000 a year for a total of about \$50,000 for interest charges, and you saved \$180,000?

Mr. WILLIAMSON: Yes.

Mr. WAHN: And the equipment is still useful?

Mr. WILLIAMSON: Yes.

Mr. WAHN: Then, the question is what were you using there in the meantime if you did not use this piece of equipment. How did you carry on without it?

Mr. WILLIAMSON: As I mentioned, the mode of operation was entirely different. The purpose of this particular piece of apparatus is to provide a connection between the airport terminal and the radar equipment which is mounted on the mountain which is at the back of the cities there, and during the interim the staff, who normally would be controlling traffic from a point on the airport and performing other traffic control functions, were split so they could put some of them at the site on the mountain, and they operated from there using equipment which now will be moved from the mountain as the remote control apparatus can be connected by this stored equipment to the equipment on the mountain.

Mr. WAHN: And, that will effect an economy in the future, will it?

Mr. WILLIAMSON: Yes, from a staff point of view and general operations. It is a type which is used in standard practice across the country.

The VICE-CHAIRMAN: Have you a question, Mr. Stenson?

Mr. STENSON: Yes, Mr. Chairman. Did I understand Mr. Williamson to say that this piece of equipment is worth twice as much today as when you purchased it?

Mr. WILLIAMSON: No, sir. I said it would have cost us approximately twice the price we paid had we bought it as one, even at that time.

The VICE-CHAIRMAN: Does that answer your question. If so, are there any further questions on this particular paragraph. If not, we will proceed to paragraph 85 which appears on page 53 expenditure arising out of an accident resulting from improper installation of air traffic control equipment.

85. *Expenditure arising out of accident resulting from improper installation of air traffic control equipment.* On March 26, 1962 a Trans-Canada Air Lines airplane, while taxiing at the Montreal international airport, came into contact with a precision approach radar reflector which had been recently installed close to the edge of the holding area beside the runway. Subsequently the airline presented a claim to the Department of Transport for costs of \$82,552 "attributable to engine ingestion of temporary P.A.R. aluminum reflector and post". Payment of the claim was authorized by the governor in council on an *ex gratia* basis, the charge being to the transport appropriation for "airport and other ground services—operation and maintenance" (vote 145).

An investigation by the department revealed that the reflector giving rise to the accident had, with other reflectors, been installed at a distance of only 25 feet from the side of the runway instead of at the distance of 50 feet recommended by the equipment manufacturer and approved by departmental headquarters. Furthermore, the poles supporting the reflectors had been temporarily installed with their bases above the prescribed height because the surface of the ground was frozen at the time. The accident occurred because the outboard engines of the aircraft involved in the accident, which were lower than the reflectors, projected about 33 feet from the side of the runway when its wheels were on the edge of the paved area.

Mr. HENDERSON: This paragraph explains the circumstances under which a claim of \$82,552 had to be paid by the department as a result of an accident at the Montreal international airport in March 1962.

The VICE-CHAIRMAN: Are there any questions on this paragraph?

Mr. HALES: Mr. Chairman, it would appear that this large sum of \$82,552 was paid out by the taxpayers of this country because of a faulty installation at this airport. I do not know whether or not Mr. Scott can answer this question but I would like to know who installed this and who would give the instructions as to how and where it should be installed.

Mr. SCOTT: Perhaps Mr. Goodwin would answer this question.

Mr. R. W. GOODWIN (*Director of Civil Aviation, Department of Transport*): Mr. Chairman, I do not know how much detail the members would like me to make available to them.

The VICE-CHAIRMAN: As much as possible, in brief form.

Mr. GOODWIN: Well, it might be well to give some background information to indicate to the committee what the purpose of this installation was.

Precision approach radar, which is probably more familiar to the committee in terms of ground control approach or G.C.A., had been installed by the telecommunications branch for use by air traffic control at Montreal. There were some deficiencies in its performance. The electronic engineers decided that a system of reflectors which would provide good targets for the radar should be installed along the edges of the runway so that the radar operator bringing the aircraft in under instrument conditions clearly could pinpoint the extremities and design of the runway. Of course, the design of the reflectors was a matter for the electronic branch. When it came to installation the plan was submitted by the manufacturer of the equipment and it was approved in so far as the distance out from the edges of the runway and the height of the poles were concerned.

Subsequent to the approval of this plan the engineer in charge took this plan, which was not related to any specific runway at any specific airport, and overlaid the plan on runway 24 left of Montreal. Now, the plan was still good except at the extremity of this particular runway there is a turning bay. The plan was given to a works foreman at the airport directly by the engineer in charge and the foreman was told to instal according to the plan. Being a good foreman he followed the engineer's plans exactly. The main reason that this was not picked up by airport management was that there was no co-ordination service between the installers and the airport operators.

Mr. HALES: Mr. Goodwin, did the Department of Transport and the manufacturer both agree on the plan of installation?

Mr. GOODWIN: Yes, but not related directly to that particular runway. This was a case of approving the sighting suggestion by the manufacturer in so far as the distance out from the edge of the runway is concerned or, in other words, down wind from the end. That was approved in Ottawa by our airways people from a safety and zoning point of view. Had this been a straight runway this would not have happened. It was a case of following instructions to the letter without applying practical considerations to it on the part of a maintenance foreman.

Mr. HALES: Did your department realize that there was this curve in the runway? Did they know that it existed?

Mr. GOODWIN: Oh, yes, indeed, sir.

Mr. HALES: Well, knowing that why were instructions not given accordingly?

Mr. GOODWIN: Well, as the investigation revealed—and, there was a very intensive and exhaustive investigation in this particular instance—the people who approved the plan approved it from a zoning point of view without relation to any specific runway. In other words, the approved plan was quite satisfactory from the edges of the runway for these reflectors, which are made up of a hole with a disc fan on them, but when it was sent back to the Montreal region there was a lack of co-ordination at that point between the airport operators and the telecommunications engineers carrying out this installation. The main break in the chain occurred when the installation, which was a temporary one, was not co-ordinated with airport management and air traffic control.

Now, at a large airport there are continual operations going on and we have not been able to account for the breakdown in the line of communication at this particular time. The job was finished just before dusk. Had it been daylight the pilots would have seen this pole, which is six feet above the ground and is either a four by four or six by six, which was supplied by the manufacturer. But, there was definitely a breakdown in the communications.

The VICE-CHAIRMAN: Gentlemen, because it is nearly five minutes to eleven o'clock and the defence committee wishes to use this room, may I ask you to return at 3.30 this afternoon, when we will take up the expenditures in respect of the Montreal air terminal, which should prove to be very interesting.

AFTERNOON SITTING

Thursday, July 16, 1964.

The VICE-CHAIRMAN: Gentlemen, we have a quorum. Before taking up clause 86 which deals with the Montreal international airport cost, I take time out to welcome Mr. Danforth who has been appointed a member of this committee. I am sure he will make a valuable contribution to our work. We are now on paragraph 86.

86. *Montreal international airport construction costs.* In 1953 preliminary planning by the Department of Transport indicated that expenditure of about \$6 million would be required for the construction of an air terminal building and a separate "finger" building at the Montreal international airport. The concept of a separate "finger" building was abandoned in the face of adverse criticism by prospective commercial users of the facilities, some of whom also criticized the inadequacy of space provided for their use.

In July 1954 two firms of architects were engaged to work jointly on the project and were instructed to have specifications for the new terminal building ready for tender by March 1955, considerably in advance of what would have been expected normally in connection with a project of this magnitude. The revised plans prepared by the architects differed materially from those originally contemplated and the cost of the project was estimated at \$11 million, including \$1.5 million for the "fingers" which were now to be extensions of the terminal building itself.

In order that the work could proceed with a minimum of delay, and notwithstanding the fact that final decisions had not been reached with regard to a number of important matters, it was decided that the work could be divided into a number of stages and separate contracts awarded for each stage. It was felt that this approach, rather than having a contract for the entire project placed with one contractor who would subcontract for a number of construction stages, would enable the architects to work on the detailed specifications for one stage while work was proceeding on the previous one. It was also hoped that a saving could be effected through the placing of individual contracts. The contract for the first construction stage was authorized in August 1955; and the terminal building was substantially completed and opened to the public in December 1960.

Total costs actually incurred in the construction of the terminal building and related facilities had amounted to \$30,591,000 at March 31, 1963, as follows:

Terminal building	\$22,348,000
Fingers and aeroquay	6,048,000
Furnishings etc.	676,000
Architects' fees and expenses	1,519,000
	<hr/>
	\$30,591,000
	<hr/>

Reasons underlying these heavy costs, far in excess of those estimated, have been reviewed by the department with us, the principal reasons advanced being:

- (a) the undertaking was the first of such magnitude undertaken by the department and raised a number of problems which were either under-estimated or unforeseen in the planning stage because of the size and complexity of the project;
- (b) it was considered necessary to proceed with the various stages of the work as rapidly as possible without, in some cases, having complete plans available (a result was that prices covering much of the work had to be obtained through negotiation with the contractors already on the job, rather than through tendering);
- (c) construction took place during the period when the first major thinking was going into the planning of terminal buildings to be used by jet aircraft, and this was responsible for a great many changes in the planning as work proceeded, making advance cost estimates unrealistic; and
- (d) the architects fell behind schedule in their preparation of plans.

Mr. Henderson.

Mr. HENDERSON: The purpose of this note is to explain the factors which carried the cost of this construction from the estimate of \$6 million in 1953 to an actual outlay of over \$30 million in the ensuing ten years. It must, of course, be recognized that the job was the first of its type undertaken by the department. I think a discussion with Mr. Scott and his associates concerning the underlying reasons causing these heavy costs may assist the committee to understand situations where the government undertakes construction work of this magnitude. That is all I have to say in introducing this subject.

The VICE-CHAIRMAN: Are there any questions from members of the committee pertaining to this paragraph?

(Translation)

Mr. LEBLANC: In French.

The VICE-CHAIRMAN: Mr. Leblanc.

We will take a few minutes off to see if the sound system is working.

Mr. LEBLANC: Mr. Chairman, being from Montreal, what strikes me most in this is that the works, or at least...

The VICE-CHAIRMAN: Mr. Leblanc, one moment please.

Mr. LEBLANC: I was saying, Mr. Chairman, that the works, or at least the preliminary plans, were started in 1953, and finally the airport was opened to the public in 1960, which means a lapse of seven years.

At the beginning, the preliminary estimates were \$6,000,000, and they ended by being \$30,591,000. We were given all sorts of reasons. That was not the first airport built by the department of Transport, and the reasons they gave do not entirely satisfy me. Could we elaborate further on all the explanations given on this point?

The CHAIRMAN: Mr. Leblanc, in order to save time, it might be preferable that you ask questions you wish to be answered, questions you are interested in.

Mr. LEBLANC: Firstly, are the architects who were hired at the beginning, the same who handled the contract from 1953 until 1960?

(Text)

The VICE-CHAIRMAN: Do you wish to answer that, Mr. Scott?

Mr. SCOTT: No. Mr. Ramsay will answer.

Mr. RAMSAY: Yes, they were.

(Translation)

Mr. LEBLANC: When the contractors began the work, after the architects had called for tenders, did they obtain the contract upon the first call for tenders and were they the same until completion, or were the contractors subsequently changed?

(Text)

The CHAIRMAN: Mr. Ramsay?

Mr. RAMSAY: In answer to that question there were numerous tenders and numerous contractors from the commencement of the construction until the completion.

(Translation)

Mr. LEBLANC: According to the explanations given at page 54 of the English version, it seems that many contracts were awarded without the calling of tenders. What is the amount of contracts you awarded without tenders being called?

(Text)

The VICE-CHAIRMAN: Would Mr. Scott care to answer?

Mr. SCOTT: No, Mr. Ramsay.

Mr. RAMSAY: Mr. Chairman, we had contractors on site who were completing one phase of the work and it was found to be expeditious and economical to have the same contracting company's contract expanded to include the additional work, provided it came below our estimate, and it did in each case.

The VICE-CHAIRMAN: Now, Mr. Hales.

Mr. HALES: Maybe if we went back to the start of this it would be better because I am addressing my question to Mr. Ramsay. The preliminary planning and so on was done by the Department of Transport and was estimated at \$6 million. Yet one year later—mind you, just one year later—the architects who were called in estimated it to be \$11 million: so there is a difference of \$5 million between the estimate of the Department of Transport and the estimate of the architects who were called in within a space of just one year. Maybe Mr. Ramsay could enlarge on this difference.

Mr. RAMSAY: The planning of the Montreal terminal building was commenced in 1951. It was some years later before consulting architects were engaged in order to establish a financial account for the building arbitrarily. This sum of \$6 million was put in the estimates. There were no plans completed at the time. This \$6 million was an arbitrary figure. The first estimate was made on preliminary sketch plans and was in the neighbourhood of \$12 million. This did not include the central heating plan, the heating lines, the tunnels, the furnishings, and so on which were outside of that, and which go to make up the \$30 million.

There were some 200 to 300 extra work orders for changes in the building during construction owing to the fact that the air lines, when they were setting up these preliminary designs, did not anticipate that in the life of some of the executives they would be operating jet aircraft as a civil operation. It was their opinion that jet operation would remain with the military at least until 1970. But jet aircraft came into operation and plans of the building had to be modified in order to accommodate this type of aircraft operation.

Neither did the air lines consider at the time of planning of the original building that automation was something with which they were too much con-

cerned. But during construction they became more aware of the importance of automation, and this required further changes. I could give you one or two more examples. The original building was planned for a type of customs inspection that required the baggage to be brought in behind the counter from the customer, placed on the counter, cleared by customs and taken over the counter, out the door.

This was the way the building was first designed at the request of the air lines that this was the only way it could work.

But on the opening of the New York international airport it was proven that international air line operations could be done with a cafeteria style, so the building was subsequently changed and additional baggage equipment installed to accomodate this cafeteria style or function. These were some examples.

Mr. HALES: It would appear that the estimate of \$6 million that was requested in 1953 by the department was just in order to get the project started and that it was not really a true figure.

Mr. RAMSAY: That is right.

The VICE-CHAIRMAN: Now, Mr. Frenette.

(Translation)

Mr. FRENETTE: Mr. Ramsay, do you think that all the work is done and that the construction is completed? In your opinion, was the method used in awarding the contracts or for the achievement of the work the right one and the most economical one in the circumstances?

(Text)

The VICE-CHAIRMAN: Mr. Ramsay?

Mr. RAMSAY: Mr. Chairman, under the circumstances of attempting to erect a building for specialized tenants who had not at that time been convinced of the kind of operation they were going to be involved with, the method of construction under the conditions that existed was certainly the best thing that could be done.

The VICE-CHAIRMAN: Are there any further questions?

Mr. HARKNESS: Mr. Chairman, it does not seem to me that if we start out with the first estimate actually made which was \$12 million, and you add another \$3 million, for the heating which was not included in that short time, it still seems to me that we have not had any real explanation or any satisfactory explanation why the final cost was 100 per cent more than that, that is, \$30 million instead of the maximum of the original estimate which was \$15 million. You mention changes that would be required, because you are going to handle jet aircraft rather than piston aircraft. You as the man who would be responsible for very much of this cost would handle passengers just the same from a terminal building. Your terminal building does not need to be very much different because of the use of jet aircraft rather than of piston aircraft, of which you are still handling a large number.

Mr. RAMSAY: When I gave you one or two examples, I did not give you the complete details. The estimate of \$12 million for the terminal building did not include the heating plant, and it did not include the fingers. The heating plant cost somewhere near \$2 million with the underground distribution tunnels, but it did not include the fingers which finally came out to \$6½ million. It did not include the approach roads, the aprons surrounding the building, the furnishings and the other items which would add up to the \$30 million. The

\$12 million did not include the estimate for the fingers and the tunnels to the fingers; and it did not include the air conditioning which was added subsequently.

The VICE-CHAIRMAN: Are there any further questions? If not, let us go to paragraph 87 on page 54:

87. *Catering contract, Montreal International Airport.* In March 1960 the Department of Transport invited public tenders for the rental of the restaurant and other dining facilities in the new terminal building at the Montreal international airport, on the basis of a percentage of gross revenue from sales of food and beverages. Three of the bids received were given serious consideration, two being from large, well-established concerns in the catering field. The third, which contained a slightly better offer than the other two, came from a group of Montreal citizens with varied backgrounds, including some experience in restaurant operations, who proposed to incorporate a company to operate the facilities if they were successful in obtaining the concessions.

Executive approval was given in August 1960 for entry into an agreement with this group but only on condition that it, at its own expense, furnish, equip, and decorate the cocktail lounge and bar and spend a minimum of \$350,000 as the initial cost of furnishing, equipping and decorating the several concessions. The condition was agreed to by the group.

The group thereupon formed themselves into a limited company and signed a lease indenture dated January 31, 1961. The indenture contained the condition referred to previously and in addition required that the specified amount of at least \$350,000 to be spent on furnishings, etc., was to be evidenced by certified copies of receipted vouchers furnished to the department within 60 days of the effective date of the lease. This requirement was not met and the department later explained to the audit office that a general awareness of what had been installed made it seem unnecessary to invoke the relevant clause.

Financial statements produced by the company to the department in May 1961, giving the financial position at the date of the lease indenture, revealed that the company was proceeding to make commitments for expenditures called for in the lease, but it was also revealed that the company was under-capitalized in that only \$150,000 equity capital had been introduced. Interim financial statements provided to the department by the lessee as at July 31, 1961, i.e., after six months operation under the lease, revealed that:

- (a) no further equity capital had been introduced,
- (b) \$73,000 had been borrowed by the company,
- (c) there was a deficiency of working capital, and
- (d) furniture and fixtures had been largely obtained on credit.

Although partially reorganized in July 1961, the financial position of the company continued to deteriorate. Operations for the first eight months to September 30, 1961 resulted in a loss which was in excess of the paid-in equity capital. Financial statements prepared as at June 30, 1962 revealed that further losses had occurred without any additional equity capital having been introduced.

On October 1, 1961 the company ceased to make the rental payments to the department called for by the lease indenture and these were not resumed until almost a year later. Following a general assessment of the situation in February 1962, the department decided that a proposal made by the company for a major re-writing of the lease and a substan-

tial reduction in the operation of the facilities was unacceptable and that the only solution to the situation was to seek a successor by direct negotiation. The department therefore invited proposals from the two well established catering concerns whose bids had also received consideration in March 1960. One of these concerns showed interest in taking over the catering company provided that "the department would make some adjustments both with respect to the financial crisis which had developed and the fee formula for continued operation of the restaurant". With the department's approval the concern entered into discussions with the directors of the company holding the catering contract. However, before much progress could be made by this concern, the directors and principal shareholders of the company holding the catering contract suddenly sold out their interest in the company to a fresh group of local citizens in October 1962.

In November 1962, after current rental payments had been resumed, but without reducing the backlog of indebtedness, the new directors of the company holding the catering contract came forward with a proposal that the basis for the payment of rental in so far as food sales were concerned be substantially adjusted downward and made retroactive to February 1, 1961, the effective date of the basic lease indenture.

Notwithstanding the unsatisfactory performance of the lessee company over the two years of its operation, the treasury board early in 1963 approved the financial reductions sought by the new directors and the department was authorized to amend the lease indenture retroactively on that basis. Although it is obvious that this will result in a substantial reduction of the company's unpaid indebtedness to the department, which amounted to \$167,400 at March 31, 1963, the actual amount of the reduction has not yet been finally determined by officers of the department.

This has to do with the extra catering contract for the Montreal international airport. Before we get to the questioning I would like to advise the committee that a report from the Minister of Finance in connection with the exchange fund account is ready today and is being tabled. It will be up for discussion at the next meeting of the committee. But the minister and Mr. Henderson were of the opinion that the members of the committee should receive it now so that they might peruse it before the next meeting, and that this would make for speedier action in the questions. Only English copies are available today because the report was not finished until late yesterday. But French copies will be made available on Monday and will be distributed to those who wish to have them in French.

(Translation)

The VICE-CHAIRMAN: Today, the report of the minister of Finance will be tabled. It is printed in English only, but the French version of the report will be available Monday and will then be distributed to the French-speaking members of the committee. That is why this report is handed to you today, so as to facilitate your work, because it will be examined at our next meeting.

(Text)

Mr. Henderson.

Mr. HENDERSON: The sequence of the unfortunate findings is set out here on pages 54, 55, and 56. Members may want to put a number of questions to Mr. Scott and his associates. We discussed and reviewed this matter in some considerable detail last year with Mr. Baldwin the deputy minister, who was most co-operative in furnishing me with full details. I understand that the

company's unpaid indebtedness to the department was reduced from \$167,400 at March 31, 1963, as mentioned on page 56, to \$107,921 by the amendment to the lease that is referred to. The amount has since been further reduced to \$31,568 by applying against it the value of certain installations, which I understand have since been acquired by the Department of Transport. That is all I have to say.

The VICE-CHAIRMAN: Are there any questions on clause 87?

Mr. LEBLANC: We note here that the first group who tendered was comprised of two well known catering companies. When they got the initial tender for themselves, they formed a limited company and they then signed a lease or an indenture with the Minister of Transport. Now, was the lease signed by the limited company under the name of the limited company, and were the directors held responsible with the company for the lease itself?

Mr. HENDERSON: I shall ask Mr. Smith to speak to this.

Mr. D. A. SMITH (*Audit Director, Office of the Auditor General*): The lease was with the limited company.

Mr. LEBLANC: The directors were not involved personally with financial responsibilities?

Mr. HENDERSON: The lease was signed by the limited company which they formed.

Mr. LEBLANC: What was the percentage that they gave in order to get the tender? You have in your notes that you asked for tenders on the basis of a percentage of the revenue from the sale of food and beverages.

Mr. HENDERSON: I am afraid I do not understand.

Mr. LEBLANC: When the tender was asked for you mentioned here that the Department of Transport invited public tenders for the rental of the restaurant and other dining facilities on the basis of a percentage of the gross revenue from the sale of food and beverages. Now, the question is, what was that percentage?

Mr. HENDERSON: Mr. Smith, I think you have that information.

Mr. SMITH: The percentage was the greater of 11.5 per cent of the gross food sales or a minimum of \$100,000 per annum. Later arrangements were made for the percentage of 15 per cent to apply to bar sales.

Mr. LEBLANC: I understand they did not receive a licence for the sale of beverages for quite some time; is that right?

Mr. HENDERSON: That is right.

Mr. LEBLANC: When was the licence granted originally? Was it granted when the group changed?

Mr. SCOTT: It was granted in the fall of 1961.

Mr. LEBLANC: Thank you.

Mr. HALES: Mr. Scott, I presume tenders were called for operating the food facilities?

Mr. SCOTT: Yes.

Mr. HALES: You received three tenders?

Mr. SCOTT: Yes.

Mr. HALES: The lowest tender was accepted?

Mr. SCOTT: It is really the highest tender, sir, in these cases.

Mr. HALES: The highest tender was accepted in this case. Who recommended that that tender be accepted?

Mr. SCOTT: In all these cases the decision is made on the basis of a recommendation of the minister to treasury board.

Mr. HALES: Who would advise the minister?

Mr. SCOTT: The department.

Mr. HALES: There is an indication in this paragraph that executive approval was given. What does that mean?

Mr. SCOTT: That means that treasury board approval was given to an entering into an agreement.

Mr. HALES: Who made the recommendation that this tender be accepted?

Mr. SCOTT: The minister.

Mr. HALES: He made that on the advice of whom?

Mr. SCOTT: In making a decision in respect of a concession like this there is a great deal more taken into account than just the percentage of the gross offered, or the minimum floor that might be suggested. One of the considerations, of course, is the experience of the company and the initiative one might expect the company to put into the business. There are many other intangible factors which really cannot be assessed, such as standards of food the company proposes to provide and things of that sort.

Mr. HALES: The minister was advised by the department to accept this tender and those who gave the advice knew that this company tendering was not a recognized company, is that right?

Mr. SCOTT: The department's advice was really in respect of the other two tenders.

Mr. HALES: Was there any consideration given to requiring this firm to put up a bond in view of the fact it was being asked to equip and decorate to the extent of a minimum of \$350,000?

Mr. SCOTT: Not that I am aware of, no.

Mr. HALES: Do you not think that would have been something the firm should have been asked to do?

Mr. SCOTT: I do not think such a thing has ever been done, sir.

Mr. HALES: In view of the fact you were dealing with a company that had no previous experience in this business whereas the other two firms did have experience, and in view of the fact you were taking a gamble to the extent of \$350,000, did it not occur to the department that a bond should be required?

Mr. SCOTT: Apparently not.

Mr. WINCH: Mr. Chairman, perhaps I should apologize at the outset for the question I intend to ask, because in all the years I have been a member of the public accounts committee I do not think I have found it necessary to ask a question of this kind. In view of what the Auditor General has stated in his report to the House of Commons in paragraph 87, considering the intricacies and implications involved, I feel I must pose the following question.

As Mr. Hales suggested a moment ago this paragraph in part states:

Three of the bids received were given serious consideration, two being from large, well-established concerns in the catering field. The third, which contained a slightly better offer than the other two, came from a group of Montreal citizens—

That group until that time apparently had not had any experience in the catering business. The contract involved a major catering job. We are told by the Auditor General that two of the bids were received from well established concerns in the catering field but the contract was given to a group of Montreal

citizens who at that time had not even been incorporated as a company, who proposed to be incorporated as a company as indicated by the information contained in paragraph 87 but who, as indicated by further information in this paragraph, were completely unable to meet their obligations.

I think I have two logical questions to be asked by members of this committee.

The first is, why was a decision made not to give the contract to a concern which had experience in the business but rather to a group of citizens who had not even at that time been incorporated?

Second, and this question I think naturally follows the question just asked, was there political pressure or implication in the granting of this contract in respect of catering facilities at the Montreal airport? Can we receive a definitive answer to that question?

The VICE-CHAIRMAN: Mr. Winch, I suggest your first question is in order but that your second question is out of order. If you intend to ask the second question, then you should ask it of that individual who was the minister of transport and responsible at that time. Certainly you should not direct it to an employee of the government.

Mr. WINCH: I am directing the question to the deputy minister of transport, and I should like to know how far he can go in an attempt to obtain that information in regard to what I maintain is an absolutely extraordinary situation for this committee.

The VICE-CHAIRMAN: You may maintain that, and I have no objection, but I do not think your second question should be asked of an employee of the government, and it is definitely out of order.

Mr. WINCH: Perhaps we could have an answer to my first question.

Mr. SCOTT: In respect of your first question, sir, the company claimed it would have no problem in respect of the operation of hiring a competent manager.

Mr. WINCH: To which company are you referring?

Mr. SCOTT: I am referring to this company.

Mr. WINCH: According to the information we have, at the time the contract was let the group only proposed to incorporate as a company and there was actually no company in existence.

Mr. SCOTT: I should refer to the group, if you like.

Mr. WINCH: Is that information incorrect?

Mr. SCOTT: There is nothing wrong with the information, Mr. Winch. As it is stated here, it is quite correct.

Mr. WINCH: There was no company in existence at that time?

Mr. SCOTT: That is right.

Mr. WINCH: I refer to the time the contract was let.

Mr. SCOTT: That is right. The proposal was that the group could hire adequate management and make this operation a success.

Mr. WINCH: Is it your usual practice or policy as a deputy minister in a situation like this, where a catering operation of this kind is to be let by contract, to turn down two tenders sent in by concerns in the catering business and award the contract to a group not in the business and which proposes to form a company if they receive the contract? Is that a fair question to ask you? Is that how you normally proceed in letting your contracts?

Mr. SCOTT: No, that is not how we proceed. The department normally makes an assessment of any submission that is received and refers that assess-

ment to the minister. It is up to the minister to decide in respect of the tenders and it is on the basis of the departments' assessment that he makes a recommendation or proposal.

Mr. WINCH: I ask you this question as the deputy ministre because I presume the minister acts on the information you give to him.

Mr. SCOTT: I am only acting deputy minister sir.

Mr. WINCH: Did you make a recommendation to the minister in respect of these tenders?

The VICE-CHAIRMAN: I must correct you, Mr. Winch. Mr. Scott is the acting deputy minister and he should not appear on the record as the deputy minister until he is promoted to that job.

Mr. WINCH: As the result of observing how he conducts himself, sir, I am sure he will make a good deputy minister.

The VICE-CHAIRMAN: I am sure your contribution is accepted with pleasure.

Mr. WINCH: Did you yourself, the department or the deputy minister make any recommendations to the minister in respect of the awarding of this contract?

Mr. SCOTT: We did not make any recommendation other than the assessment.

Mr. WINCH: May I ask what your assessment was?

Mr. SCOTT: I believe the majority opinion in the department favoured the Hilton bid.

Mr. WINCH: In other words, the department favoured an established catering firm?

Mr. SCOTT: That is right.

Mr. WINCH: That assessment was not accepted by the minister and he, on his own responsibility, made the decision to grant the contract to a firm not yet in existence?

Mr. SCOTT: The final decision really is made by the treasury board.

The VICE-CHAIRMAN: Mr. Winch, I do not want to interrupt your questioning but a civil servant cannot answer for an elected representative.

Mr. WINCH: Mr. Chairman, I am trying to find out the procedure followed, and I think I have the answer at this time. The three tenders were received by the deputy minister or yourself, or the department?

Mr. SCOTT: Yes.

Mr. WINCH: You received three tenders. The department made a recommendation to the minister, recommending a firm which was in the catering business. The minister therefore made the decision, or made a recommendation to the treasury board; is that right?

Mr. SCOTT: That is quite correct.

Mr. WINCH: The treasury board accepted the recommendation of the minister rather than the assessment of the department; is that right?

Mr. SCOTT: Yes.

Mr. WINCH: Mr. Chairman, you are ruling that I cannot ask a question in respect of the basis upon which the minister made such a recommendation; is that right? You are going to rule me out of order if I ask whether the recommendation was made on a political basis; is that right?

The VICE-CHAIRMAN: I do not wish to stop you from asking that question, but it is not possible for a civil servant to explain the action of a minister who is an elected representative.

Mr. WINCH: I think we have the answer at this time.

The VICE-CHAIRMAN: I think you do have the answer.

Mr. WINCH: The responsibility for the decision was not the responsibility of the department, the deputy minister or the acting deputy minister. The decision was made by the minister himself that the contract should be granted to a firm not yet in existence.

The VICE-CHAIRMAN: I think that fact has been established.

Mr. LEBLANC: The other question I wanted to ask follows along the subject involved in questions asked by the previous speaker.

What were the names of the directors of that company?

Mr. WINCH: Are you referring to a time after the company received the contract?

(Translation)

The VICE-CHAIRMAN: The firm to which the contract was awarded?

(Text)

Mr. LEBLANC: I am referring to the first group which entered a tender including that form of incorporation proposition.

Mr. SMITH: I have the names of the officers of the company as given by the deputy minister of transport in April of 1963. The names are: Mr. David Belhumeur, president and a chartered accountant; Mr. Jean P. Dionne, vice president and sales director of Dionne Limited, retail chain stores, Montreal, and Mr. Paul O. Parent, the secretary treasurer and general manager of A.F.C. Limited the company with which we are concerned here.

Mr. LEBLANC: According to the information I have, the group would not be made up of those individuals. I am referring to the first group which received the favour of the tender, and that is the group that bid on the tender as a group and not as a company. You probably have the names of that group.

Mr. SMITH: The answer to your question would have to be obtained, sir.

Mr. LEBLANC: Thank you.

The VICE-CHAIRMAN: Presumably you will be willing to obtain that information and send it to this committee for the next meeting, or send it to Mr. Leblanc so that he has the information he is seeking?

Mr. HENDERSON: Mr. Chairman, I think the information is contained in the department's records because Mr. Smith was quoting from a letter I received from Mr. Baldwin in answer to these questions. Perhaps it could be obtained from the records of the department.

Mr. SCOTT: That is possible.

The VICE-CHAIRMAN: If that is the case, Mr. Leblanc, that question must be asked on the Orders of the Day in order that the documents relating to that transaction may be produced. The same thing would apply to Mr. Winch's question.

Mr. WINCH: Mr. Chairman, if I may now, I should like to make a request of this committee and then will not say any more.

I should like to ask that the steering committee, in view of the importance of this situation and the implications, consider making a request that the minister of that day appear before this committee and explain why he made a recommendation to the treasury board in respect of granting this most significant contract involving catering at the Montreal airport, against the recommendation of his departmental officials, that the contract should be granted to a group not yet incorporated and not in the business. I request that you refer this suggestion to the steering committee.

The VICE-CHAIRMAN: You are requesting that we refer this to the steering committee?

Mr. WINCH: I suggest we refer the suggestion to the steering committee that the minister of that day appear before this committee to give some explanation.

The VICE-CHAIRMAN: Your request will be taken into consideration by the steering committee, I can assure you of that.

Are there any further questions in respect of paragraph 87?

Mr. DANFORTH: I should like to ask two questions, Mr. Chairman. The first question has reference to a statement in paragraph 87 to the effect that the third tender contained a slightly better offer. I wonder whether it is possible for this committee to obtain some explanation of the meaning of that phrase, "slightly better offer".

Mr. HENDERSON: Mr. Danforth, I think Mr. Smith mentioned the figures but perhaps he could elaborate on them. You have that information there, Mr. Smith.

Mr. SMITH: I said that the tender of the successful group was, the greater of 11.5 per cent of the gross food sales or a minimum of \$100,000 per annum.

The offer of the second company was, the greater of 11.15 per cent of gross food sales up to \$2 million and 12 per cent of the gross revenue over \$2 million, or a minimum of \$130,000 per annum.

The third company, and this was an amended bid by the way, was, the greater of ten per cent of the gross food sales except staff cafeteria sales, plus five per cent of the gross staff cafeteria sales, or a minimum of \$100,000 per annum.

The first two I have mentioned offered a percentage of 15 per cent of the gross liquor sales, and the third offered 16 per cent.

Mr. DANFORTH: I have one further question, Mr. Chairman. In the second paragraph of paragraph 87 there is reference to the fact that executive approval was given but only on the condition that at its own expenses an expenditure of \$350,000 had to be made in respect of furnishings, equipment and decoration. Was this condition a part of the original tender or was it in addition to the qualifications of the original tender?

The VICE-CHAIRMAN: Mr. Smith, can you answer that question?

Mr. RAMSAY: The answer to the question is that the original tender called for the successful contractor to furnish the areas to the approval of the department, but there was not a specific sum mentioned. Subsequently there was a specific sum determined, which is the \$350,000.

Mr. WINCH: May I ask a supplementary question in that regard?

The VICE-CHARMAN: Yes, Mr. Winch.

Mr. WINCH: Was the basis upon which the Auditor General made this report to the House of Commons, that the original contractual tender stated that the furnishings and equipment should be provided on an ownership basis and not a credit basis? I understand from my reading of this that it was done on credit. What is the actual cash delinquency of this group which finally became a cost to the federal treasury?

Mr. HENDERSON: That is a rather tall order. In this paragraph you will notice that the department required the group to undertake at its own expense to spend a minimum of \$350,000 immediately on furnishings, equipping and decorating for the several concessions.

Mr. WINCH: Is that cash or credit?

Mr. HENDERSON: I am going on to explain that. When the agreement was signed, the agreement or indenture contained the condition requiring that at

least \$350,000 be spent on furnishings, and so on, and that it was to be evidenced by certified copies of receipted vouchers furnished to the department within 60 days of the effective date of the lease.

I then go on to point out that this requirement was not met and the department later explained to the audit office that a general awareness of what had been installed made it seem unnecessary to invoke the relevant clause. However, I go on to say that financial statements produced by the company to the department in May, 1961, giving the financial position at the date of the lease indenture, revealed that the company was proceeding to make commitments for expenditures called for in the lease—that is the \$350,000—but it was also revealed that the company was undercapitalized in that only \$150,000 equity capital had been introduced.

Mr. WINCH: May I stop you at this point? I think this will help. May I ask the meaning of “certified copies of receipted vouchers”?

Mr. HENDERSON: Evidence that they had spent the money and production of receipts to show they had spent the money on the furnishings—

Mr. WINCH: And that they had paid for them.

Mr. HENDERSON: Yes. In this paragraph I go on to say that interim financial statements provided to the department by the lessee as at July 31, 1961—that is after six months operation under the lease—revealed—and then I list the items. First of all, no equity capital had been introduced; second, they had borrowed \$73,000; third, there was a deficiency of working capital and, fourth—and this is your point—furniture and fixtures had been largely obtained on credit.

Mr. WINCH: How did they get it by vouchers?

Mr. HENDERSON: They did not get them; that is why at the top of page 55 I show that we had asked the department why that requirement was not met.

The VICE-CHAIRMAN: Why was that requirement necessary?

Mr. HENDERSON: I think the department was very wise in making a stipulation that they spend a sum of money like this on furnishing, equipping, and decorating the concessions, if only as evidence of the seriousness of their intent to perform under the indenture. This is a very logical businesslike requirement to have made.

Mr. WINCH: Had the original tender contract agreement been lived up to, what would you say is the amount they are delinquent to the federal treasury, or the department?

Mr. HENDERSON: I think the best way to answer that question is invite you to read the balance of the comment on pages 55 and 56 where you will see there were a number of changes made, and in point of fact a new contract was entered into; this group packed up and a new group was formed.

Mr. WINCH: Was this new group composed basically of the same members as in the old group?

Mr. HENDERSON: No. I believe it was a new group of local citizens. They said, in effect, “we will take it on provided you give us a better deal”. At the top of page 56 I point out that this new arrangement with the new group was made in 1963, but in the meantime the company at March 31, 1963—the original company—stood indebted to the department for \$167,400. As I mentioned in my opening remarks, this \$167,400 has since been reduced to \$31,568 as a result of the amendment to the lease and certain installations made by the company having been taken over by the department. This is a compromise situation which had to be made in order to keep the facilities going at the Montreal international airport.

Mr. WINCH: When the second group took over, did they accept the debt of the first group or who paid off that indebtedness?

Mr. HENDERSON: Mr. Scott may correct me, but it is my understanding that the second group were prepared only to accept the debt and to operate the restaurant provided they had a new deal in respect of the amount of profit or commissions they were going to have to pay to the department.

Mr. WINCH: I am sorry; that is not my question. I am referring now to the money which was delinquent by the first group. When the second group took over, did they accept any responsibility for the money owing by the first group?

Mr. HENDERSON: That is described on page 55. You will see a paragraph where I say on October 1, 1961, the company—the original company—ceased to make the rental payments to the department called for by the lease indenture, and these were not resumed until almost a year later. Following a general assessment of the situation in February 1962, the department decided that a proposal made by the company—the original company—for a major re-writing of the lease, and a substantial reduction in the operation of the facilities was unacceptable and that the only solution to the situation was to seek a successor by direct negotiation. The department, therefore, invited proposals from the two well established catering concerns whose bids had also received consideration in March, 1960. Those are the two to which Mr. Scott referred. One of these concerns showed interest in taking over the catering company provided that the department would make some adjustments, both with respect to the financial crisis which had developed and the fee formula for continued operation of the restaurant. With the department's approval, the concern entered into discussions with the directors of the company holding the catering contract. However, before much progress could be made by this concern, the directors and principal shareholders of the company holding the catering contract suddenly sold out their interest in the company to a fresh group of local citizens in October 1962. So another outfit came in.

Mr. WINCH: May I ask one question now? I have read this most carefully, and that is why I am so interested. Has the Auditor General anything to say beyond what is contained in paragraph 87 with reference to how this committee might consider bringing in a recommendation which would take care of this most unusual development.

Mr. HENDERSON: Well, it is a very regrettable state of affairs. I know Mr. Scott and Mr. Baldwin share the same view. However, this type of thing does come along in the course of any well organized business.

Mr. WINCH: If it were a well organized business in free enterprise, I would say they would be broke in two months.

The VICE-CHAIRMAN: In private enterprise they would not be there.

Mr. CAMERON (*High Park*): At the inception did you make any inquiries to find out whether they had the money and had spent the \$350,000 which they were supposed to spend in order to acquire the equipment?

Mr. SCOTT: Well, this became part of their undertaking.

Mr. CAMERON (*High Park*): But you took no precautions to see that they had the money?

Mr. SCOTT: This is hard for me to answer, because I was not involved in this at that time.

Mr. GOODWIN: Mr. Chairman, I recall the meetings on the various particulars and indeed the original four or five citizens did provide excellent bank references, for what they were worth; mind you, it was not a guarantee from the bank. However, the original group, which consisted of approximately four persons,

one of whom—I believe the president—was, in fact, a very well established restaurant operator in the city of Montreal. The other gentlemen concerned also were very highly regarded citizens in business in Montreal. So, at the time the bids were reviewed, and subsequent to the original review, the original group did present what the department at that time considered to be satisfactory bank references, but not a bond or anything of that nature.

Mr. CAMERON (*High Park*): Then you relied on these bank statements and the reputations of the individuals who were proposing to enter into this contract in your assessment of their tender?

Mr. GOODWIN: I would not agree with that. I think Mr. Scott has made quite clear the official stand.

Mr. CAMERON (*High Park*): There must be something on which you relied. The only thing you have presented so far are statements in respect of the banking reputations of the people who made the tender. You relied on that to establish it was a bona fide solid, substantial group of persons who were behind this, and in dealing with them you believed you were not dealing with any fly by night sort of organization. Is that right?

The VICE-CHAIRMAN: I think I should point out that the recommendation made by the department was not the recommendation that was made by the minister to the treasury board.

Mr. WINCH: It should be noted on the record that the recommendation of the department was not that which was accepted by the minister.

Mr. CAMERON (*High Park*): When they entered into the contract with this group they had bank statements and knowledge of the character and reputation of these men. Probably, if they had not had the bank statements and if the men were not of the character as indicated, they would have given it a much closer look.

Mr. SCOTT: I think that is right, sir.

Mr. CAMERON (*High Park*): Having got that far, why did the department waive the requirements calling for certified copies of the vouchers for the equipment, and so on, that under the contract they were required to deliver? Was that a decision of the department, or was it a decision made outside your scope? Mr. Henderson, in his statement, says the general awareness of what had been installed made it seem unnecessary to invoke the relevant clause. Was that a decision of the department, or whose decision was it?

Mr. SCOTT: I really would not put that on the basis of a decision, sir. I think the fact was that these people were putting in the facilities in accordance with their undertaking, and the local people at the airport watched this and saw it going in. This seemed to be evidence of the good faith of the caterer.

Mr. CAMERON (*High Park*): They were putting in the equipment which indicated a value to you of something approaching \$350,000; but, why did you waive the condition that they produce receipts to show this equipment was being paid for?

Mr. WINCH: That is a top notch question.

Mr. SCOTT: This way only over a relatively short period, because during that period the company started getting into difficulties, and we had our financial service people audit their operations.

Mr. CAMERON (*High Park*): The effective date of the contract was February 1, 1961?

Mr. SCOTT: Yes.

Mr. CAMERON (*High Park*): And these receipts were to be produced within 60 days after the goods were put on the premises. By May 1 you knew that the company was proceeding to make expenditures called for in the lease, but

that the company was undercapitalized, and the interim financial statement provided to the department as of July 31 indicated that no further equity capital had been introduced, that \$73,000 had been borrowed by the company, that there was a deficiency of working capital, and furniture and fixtures had been largely obtained on credit. What did the department do under these circumstances?

Mr. SCOTT: I am advised that during this 60-day period the facilities actually were not put in. They did not have a licence.

Mr. CAMERON (*High Park*): So they still did not operate as of the first of February?

Mr. SCOTT: Not the bar; the food concession was in operation.

Mr. CAMERON (*High Park*): Then their position apparently continued to worsen. Did the department do anything at all about it?

Mr. SCOTT: Oh, yes; we were very much concerned with this, because basically it was turning out that the patronage that the concessionaire was getting was not what had been anticipated.

Mr. NOWLAN: Why?

Mr. SCOTT: One of the reasons was that it did not have a liquor licence.

Mr. CAMERON (*High Park*): Under the tender did you not have the right to cancel their contract?

Mr. SCOTT: This could have been done.

Mr. CAMERON (*High Park*): Was that ever considered?

Mr. SCOTT: Yes; I think it was considered, but there was also the problem of maintaining facilities in operation during a period of time. Even the food side of this was not turning in the revenue which had been anticipated. It was becoming evident to the department that new terms would have to be negotiated with whoever came in.

Mr. CAMERON (*High Park*): You made a general assessment of the situation in February, 1962, and at that time decided the only solution was to bring in someone else to operate the concession. Why did you not follow through with that? It seems to me it was a very wise assessment.

Mr. SCOTT: At this time the original group came back. Prior to this they were thinking of withdrawing and it was the thought of their withdrawal which prompted us, with treasury board's approval, to go and talk to the other two bidders to see whether we could bring them back, but then the operation changed hands and it became a practically new question.

Mr. CAMERON (*High Park*): Do you not think it was a rather peculiar thing that this first company sold out at that time without any warning at all to the department?

Mr. SCOTT: You have no control over transfer of shares in the company.

Mr. CAMERON (*High Park*): I am not asking about the question of having any control; I am asking whether you did not think it was a peculiar thing for them to do.

Mr. SCOTT: It was not a very viable undertaking at that time.

Mr. CAMERON (*High Park*): Notwithstanding that, you continued to negotiate with this new group that was taking it over.

Mr. SCOTT: It was considered that the new group might be more experienced and have better financing.

Mr. CAMERON (*High Park*): In what way were they considered to be more experienced and to be more financially sound? In what way were they going to manage this concession in a manner satisfactory to the department?

Did you get a bank statement? Did you get biographies? Did you get character references behind these people to show whether they were eminent businessmen or not?

Mr. SCOTT: Well, when they came back with another proposal, it was a somewhat different group. They were prepared to continue if they got a renegotiation of the undertaking. The minister considered that this would be all right.

Mr. CAMERON (*High Park*): Then the minister is back in the picture again?

Mr. SCOTT: The minister is always in the picture.

Mr. CAMERON (*High Park*): With all these different discussions, and there must have been very many of them, the minister was fully informed about them?

Mr. SCOTT: Yes, sir.

Mr. CAMERON (*High Park*): He knew about the fact I assume, and that they were interested to come back a second time?

Mr. SCOTT: You mean Aero caterers?

Mr. CAMERON (*High Park*): Yes, Aero caterers, and he knew about the fact that they were negotiating with the original tenderers?

Mr. SCOTT: He knew that the department had the approval of the treasury board to go back to the original tenderers to see if they were interested to come back and take over the operation.

Mr. CAMERON (*High Park*): Who made the recommendation to the treasury board?

Mr. SCOTT: It was done on the basis of the discussions we were having at the time. This was put up to the treasury board at the time.

Mr. CAMERON (*High Park*): What was the position of the department itself in the matter? What was their solution to the problem? Did they go along with it, or did they have a different solution?

Mr. SCOTT: I think on the whole the view of the department was in favour of another firm. We have had experience with this one, we knew Aero caterers and that they were able operators, and we felt that they might be the ones who could go in and do something about getting more patronage for these facilities.

Mr. CAMERON (*High Park*): The opinion of the department was passed on to the minister?

Mr. SCOTT: When this was being discussed with Aero caterers, that is when the change took place in the other company. The view was that the other company would be on a better financial basis, and that they were going to have a new deal to start with, and that they were not going to have the same obligation of expense.

Mr. CAMERON (*High Park*): The fact that a new group of persons took over the existing contract would not enter into your decision about the qualifications of Aero carrying on the contract?

Mr. SCOTT: No.

Mr. CAMERON (*High Park*): What inquiries did you make about the qualifications of the new group to carry it out?

Mr. SCOTT: I certainly presume that inquiries were made.

Mr. CAMERON (*High Park*): I do not think it is a matter of presumption.

Mr. SCOTT: I did not make them myself.

Mr. CAMERON (*High Park*): Probably someone else can tell us.

Mr. SCOTT: I think it can be accepted that they would be assessed on the same basis as the original ones.

Mr. CAMERON (*High Park*): I would like to know what the assessment was. I would like to have a statement. Is there anyone here from your department who can give us that information?

Mr. SCOTT: I am sorry but we have no one here from property management.

Mr. CAMERON (*High Park*): Who recommended it? Was there an assessment made in making the authorizations that were made in the contract to reduce the liability?

Mr. SCOTT: Yes, there was on the basis of the department's appraisal of the difficulties of the operator.

Mr. CAMERON (*High Park*): What was the department's appraisal of them? What advice did they give to the minister who in turn would have to take it to the treasury board, as opposed to Aero?

Mr. SCOTT: Whoever came in would have to have a better financial deal than the old company had.

Mr. CAMERON (*High Park*): What about the financial responsibility of whoever came?

Mr. SCOTT: That they would meet it.

Mr. CAMERON (*High Park*): Did you set any standard of what that financial responsibility would be?

Mr. SCOTT: No, there was no fixed standard. They are meeting it now, as Mr. Goodwin has pointed out.

Mr. CAMERON (*High Park*): Perhaps we should have it in a little more detail. I mean the form as to how the new organization is carrying on.

Mr. GOODWIN: The statement indicates that the indebtedness has been reduced.

Mr. CAMERON (*High Park*): That would be by reason of the change in the tenderers, and the department absorbed the loss, or the money which it might have got, and set it out to reduce the amount.

The VICE-CHAIRMAN: Is it to be an adjustment or a payment? Is that what you want to find out?

Mr. GOODWIN: I am under the impression that both entered into it.

Mr. HENDERSON: At March 31 the indebtedness was \$167,400; that would be under the original indenture.

Mr. SMITH: That is right.

Mr. HENDERSON: I understand that figure of indebtedness to the department has been reduced by \$60,000 to \$107,921 by the amendment to the lease, that is to say, the new lease that was entered into with the new group. It is an adjustment. They wrote down the amount of the fees that they would charge the new group, and accordingly credited it to reduce the amount of indebtedness. Since then that \$107,921 has been further reduced by the value of certain installations which had been made by the company. They presumably consist of furnishings, which the department has taken over; that is, they took over ownership. They took it over from the company and applied it against the indebtedness which is now only \$30,000 odd.

Mr. FRENETTE: Was it done by adjustment or by cash?

Mr. HENDERSON: That is what I have said—by adjustment.

Mr. WINCH: In other words they have not paid a cent.

Mr. NOWLAN: If you take their property, do they not then pay?

Mr. CAMERON (*High Park*): I have one concluding question. In your opinion, and in that of the department, is this new organization carrying on, doing a satisfactory job, and living up to the contract in every respect, or have you any complaints whatsoever?

Mr. SCOTT: So far as I am aware they are doing quite well.

(*Translation*)

The VICE-CHAIRMAN: Mr. Leblanc.

Mr. LEBLANC: I would like to speak in French, Mr. Chairman, because it is easier for me. What was the duration of the lease between the minister and the first group, signed on January 3, 1961?

(*Text*)

The VICE-CHAIRMAN: Mr. Smith?

Mr. SMITH: The lease is supposed to be for a period of five years with provision for an opportunity for two further renewals of five years each.

(*Translation*)

Mr. LEBLANC: Did that lease contain provisions granting more protection to the Department of Transport than to the first group which obtained the contract? So far, it seems that all the advantages were in favour of the first group and not in favour of the Department of Transport.

(*Text*)

The VICE-CHAIRMAN: Mr. Smith.

Mr. SMITH: I think that is a question which might more advantageously be answered by the department.

Mr. LEBLANC: Is that your attitude?

The VICE-CHAIRMAN: Do you have an answer to that, Mr. Scott?

Mr. HENDERSON: We have the lease here. It would be very easy to answer any specific question. Actually I read the lease and I thought that the department had made a pretty good watertight lease. In fact, it was as a result of seeing the clause which had to do with responsibility in reference to the furnishings, which required invoices to be furnished within 60 days that my officers called for the receipts; and there was the standard cancellation clause of non-performance. It is a very long document, but I thought it was a good lease that they made.

Mr. WINCH: But you did not receive the invoices?

Mr. HENDERSON: We did not receive the invoices, as I say here. We had a number of other questions in connection with the lack of performance in the matter.

Mr. CAMERON (*High Park*): You make the statement that the legal form of the contract was good?

Mr. HENDERSON: I recognized the clauses to be the standard ones you would expect.

Mr. CAMERON (*High Park*): The contract then was a good one, formally.

Mr. HENDERSON: That is right. I do not presume to be a lawyer, but I thought that they had endeavoured to foresee every possible contingency pretty effectively.

(*Translation*)

Mr. LEBLANC: Then, the financial difficulties experienced by the first group, which subsequently formed itself into a corporation, are not attributable to the fact that the Department of Transport would have charged them an excessive amount for the lease? I believe they themselves set the amount of the lease they

were willing to pay, and it was on that tender that they obtained it. Then the financial difficulties would arise from the fact that they did not supply enough capital to start the work and to foresee the possible losses, as is usually done in private enterprise.

(Text)

Mr. HENDERSON: Are you addressing that question to me?

Mr. LEBLANC: Well, it might be to you.

The VICE-CHAIRMAN: Mr. Henderson?

Mr. HENDERSON: Well, my own general impression of the performance of the first group is that they did not seek to organize themselves very effectively. Mr. Scott can say what views the department had on the competence of their staff, but as you will see from what I say on page 55 they did not put any more than \$150,000 into the undertaking. Nevertheless they signed a lease to say that they would spend \$350,000 on furnishings alone. Then they apparently went to the bank and borrowed \$73,000. I suggest to you that they did not take this very seriously.

(Translation)

Mr. LEBLANC: It seems that the initial capital did not amount to the \$350,000 which they had pledged themselves?

(Text)

Mr. HENDERSON: No, it was not.

(Translation)

Mr. LEBLANC: In order that this group prove their good faith, should not the Department, before it signed the lease, have asked it to deposit an amount of \$350,000 in a bank, in order to show that it could meet at least its first commitments?

(Text)

Mr. HENDERSON: Yes, that was one of the first points that occurred to my officers and to me. I put that question to Mr. Baldwin.

(Translation)

Mr. LEBLANC: If I understood well the explanations given by Mr. Scott a while ago, it seems that the financial standing and the experience of the second group are much higher than those of the first group?

(Text)

Mr. HENDERSON: I am not too aware of the competence of the second group. I did ask the deputy minister what experience the second group might have had in the restaurant business. As I recollect it I do not think we have that information. Have we got it, Mr. Smith? I recall asking the question of Mr. Baldwin, who the contractors were and what their experience had been generally.

The VICE-CHAIRMAN: Mr. Baldwin is the deputy minister of transport. He is not present today.

Mr. LEBLANC: Did you ask the same question of the first group? If so, could we have the answer right now?

Mr. HENDERSON: Yes, I did ask that question. That was why Mr. Baldwin told me who the president was. But as auditor I naturally only look at these things after the event and not before.

Mr. LEBLANC: Why can we not have that? Will it be produced to the auditor?

Mr. HENDERSON: Mr. Smith has the names of these people on record.

Mr. LEBLANC: We know the names of the second group but we never got the names of the first group, or the name of the company until they were incorporated, and we do not know what the capital stock is either.

Mr. HENDERSON: I think we have that information. You have the name of the first group. Would you see if you have the amount?

Mr. LEBLANC: While we are waiting, I have another question of the Auditor General. Was the department organized to make a real audit of the gross revenues. The rental was paid under the gross revenue. Did the department ever look at the gross revenue of the company to see exactly if the revenues declared were the exact ones? Not that I doubt that they did not introduce the right figure, but I think as a matter of audit it is very good to have a strict control.

Mr. HENDERSON: That is correct, sir. The department has a competent internal audit staff. As I recall, Mr. Smith and I examined the financial statement of this first group when it was produced. I think I said here on July 31, 1961, that they were presented to the department by a firm of accountants in Montreal, and the internal auditors of the Department of Transport had themselves gone over them in detail and reported on them to the officers of the department. As far as I recall it they had raised a great many questions about the situation that this statement disclosed when of course, for the reasons Mr. Scott has stated, they became increasingly concerned with what they had on their hands.

Mr. SMITH: The only information we have with regard to the personnel is that this group was incorporated under the presidency of Mr. J. Lionel Paquette.

Mr. LEBLANC: So that in a group of 10 or 15 they were all shareholders of the new company?

Mr. GOODWIN: Speaking from memory I would assume there were five gentlemen who at least took the main lead in the negotiations with the department. I could not say whether there were more shareholders. But I am quite certain there would be not more than the five that I know of.

Mr. WINCH: Do you know their names?

Mr. GOODWIN: No, but I do know Mr. Paquette who runs a restaurant in Montreal and has done so for many years.

Mr. LEBLANC: Do you remember offhand if there was the name of one Charles Paquette who was interested in this company?

Mr. GOODWIN: I do not recall that name.

Mr. LEBLANC: Could we get the information about the first group that was formed with whom the department dealt? I am sure they know them all, and they must have all their names on record.

Mr. GOODWIN: I guess we must have. It was decided earlier that we would produce them in answer to a question.

Mr. LESSARD (*Saint-Henri*): I think that most of my questions have been asked by Mr. Cameron, and I shall wait until we get some information about the first group.

Mr. McLEAN (*Charlotte*): Is it not true that the first group were responsible people, and they went into the restaurant business with the idea that they would secure a liquor licence, but somebody interfered and they did not get their liquor licence, so they could not possibly make their revenue. They were good businessmen, and they did not want to throw good money after bad. So they would not put any more money into the operation. Then it went on to a second group who took it over. They were given a liquor licence and were able to make money.

Mr. LESSARD (*Saint-Henri*): I think that a licence was given to the first group under Mr. Paquette. I do not know the names of the others, but I believe that a licence was given to Mr. Paquette and the first group.

Mr. LEBLANC: Would it not be more regular to obtain a licence before signing an indenture involving \$350,000? I am sure that they would have had a licence before they got themselves involved in a business of this proportion.

The VICE-CHAIRMAN: You are saying that we should verify the fact whether the first group got a licence or not. Are you able to answer it?

Mr. HENDERSON: Are you aware of that?

Mr. SMITH: What I have seems to contradict that information. I have a note to the effect that the company received a liquor licence on February 24, 1961; but this is at odds with earlier testimony.

Mr. LESSARD (*Saint-Henri*): Did they not sign a lease in 1961, on January 31? If so, would they not get a licence right off the bat?

Mr. WINCH: The Auditor General and a member of his staff say that the record shows that they did have a liquor licence in 1961.

Mr. HENDERSON: Mr. Smith said there was a liquor licence obtained in February, 1961, which would have been shortly after the indenture was signed.

It was stated earlier that it was thought the licence was not obtained until 1962.

Mr. LESSARD (*Saint-Henri*): The licence was obtained earlier than that.

Mr. HENDERSON: The licence was obtained in the later part of 1961. I have a recollection that the interim financial statement, which I mentioned, did in fact show some revenue from that source at the time.

Mr. WINCH: If they did not have a liquor licence how did they show revenue unless they were bootlegging?

Mr. HENDERSON: They were running the restaurant and the eating facilities at the airport.

Mr. WINCH: I thought you referred to the lounge.

Mr. HENDERSON: I am referring to the restaurant at the Montreal airport.

The VICE-CHAIRMAN: There was no revenue received from liquor.

Mr. HENDERSON: There was a little delay in obtaining a liquor licence. The fact that a restaurant can serve liquor helps the receipts from food.

Mr. STENSON: I should like to ask a supplementary question on this liquor licence subject. Why was a licence denied these people?

The VICE-CHAIRMAN: Mr. Stenson, I believe Mr. McLean has a further question.

Mr. McLEAN (*Charlotte*): I should like to know whether they did obtain a licence and whether the licence was cancelled.

Mr. HENDERSON: That is not the case to my knowledge, Mr. McLean. I do not know whether Mr. Scott has that information, but I think there was just a normal application made.

Mr. SCOTT: That is my understanding.

Mr. McLEAN (*Charlotte*): It is my understanding that the licence was held up or cancelled.

Mr. HENDERSON: The licence may have been held up for some time. We will have to get further information in that regard.

Mr. McLEAN (*Charlotte*): There may well have been a licence although they may just not have been operating under the licence for various reasons. Is that the situation Mr. Chairman?

The VICE-CHAIRMAN: I do not know the answer to that question. I am not familiar with liquor licences.

Mr. McLEAN (*Charlotte*): You say that, not having had one.

The VICE-CHAIRMAN: I guess some of my friends who regularly attend the cocktail meetings might be able to give you a better answer, but I do not know who that is.

Mr. McLEAN (*Charlotte*): It is now five o'clock. Do we get a liquor licence now?

The VICE-CHAIRMAN: We have one more item to deal with and I think we should complete this at this meeting so that it will not be necessary to bring these present witnesses back to our next meeting, and that we may at that time proceed with our regular agenda.

Mr. STENSON: I have a question in respect of the liquor licence subject. Why did this company not obtain a liquor licence?

The VICE-CHAIRMAN: As a result of an answer given previously I would suggest they did obtain one.

Mr. LESSARD (*Saint-Henri*): The company did obtain a liquor licence.

The VICE-CHAIRMAN: Further information in that regard will be obtained and presented to this committee at its next meeting.

If there are no further questions I think we should now turn to a consideration of paragraph 98.

Mr. LESSARD (*Saint-Henri*): Will it be permissible for us to ask further questions in respect of this paragraph?

The VICE-CHAIRMAN: You are going to receive further information in respect of this subject and if at that time you wish to ask further questions you will then have your regular Chairman who I am sure will give you permission to do so.

Mr. LESSARD (*Saint-Henri*): Our present Chairman is doing very well.

The VICE-CHAIRMAN: I wish we had not talked about this liquor licence subject because I am afraid we are going to lose our quorum.

Mr. McLEAN (*Charlotte*): It is now five o'clock.

The VICE-CHAIRMAN: May we now deal with paragraph 98 in respect of non-productive payments.

98. *Non-productive payments.* Paragraph 71 of the fifth report 1961 of the public accounts committee reads:

The committee gave consideration to the extent to which it felt it would wish to be informed regarding non-productive payments in future. Although it recognized the difficulty that would be involved in defining a 'non-productive payment', it came to the conclusion that information regarding such payments would be of value, and it accordingly requests the Auditor General, in his future annual reports to the House of Commons, to include listings of any such payments that might have come to his notice in the course of his audit.

In accordance with the request contained in the foregoing observation, a listing is given, as appendix 1 to this report, of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of expenditures for the fiscal year 1962-63.

Mr. HENDERSON: At page 148 there is an indication that the Department of Transport is responsible for five of the 37 shown in appendix I. The numbers

are, item 30, consultants' fees, Sault Ste. Marie; item 31, consultants' fees, Winnipeg; item 32, cost of delays, Montreal; item 33, cost of landline circuit, Val d'Or, and item 36, cost of delays, Edmonton.

The non-productive expenditures in respect of which these cases totalled \$209,323.

The VICE-CHAIRMAN: That is the total in respect of all the paragraph you have listed?

Mr. HENDERSON: That is right, sir.

The VICE-CHAIRMAN: Are there any questions in respect of this paragraph or do you wish me to deal with this clause by clause?

Are there any questions in respect of clause 30?

Mr. HENDERSON: Item 30 is the first item.

Mr. WINCH: I am wondering whether you have made this comment because of the fact these amounts were not to be exceeded?

Mr. HENDERSON: That is right. The treasury board granted approval in principle to the construction of an air terminal building at Sault Ste. Marie at the same time stipulating the estimated total cost of \$610,000 was not to be exceeded. Consultants prepared sketch plans, work drawings and specifications prior to the tenders being invited, and when the last tender was received, and the revised tender based on modified plans, both in excess of the prescribed ceiling the department was instructed by the treasury board to cancel the tender and redesign the building at a lower cost. During the year a final payment of \$12,363 was made to the consultants in respect of their abandoned work, and this brought the total non-productive cost of the consulting services and expenditures to \$26,608.

Mr. WINCH: May I ask a general question, Mr. Chairman.

The VICE-CHAIRMAN: Yes.

Mr. WINCH: As far as I am concerned the problem in respect of all these things reverts to what we have discussed at previous meetings. I am very sorry to say that other departments run into this same kind of problem. One will generally notice, in going through these items, that the increased costs are fundamentally caused by changes in plans, wrong specifications and other similar reasons. This committee has a responsibility to check into these matters. Is it possible for Mr. Scott to tell us whether there is any means, for instance, with a little more foresight or co-ordination between the various departments, to cut down on the number of faulty plans and changes in plans before these contracts are let? I am just asking that question in a general way in an attempt to be co-operative and of some assistance.

Mr. SCOTT: I think perhaps I should make two observations in this regard. Firstly, I should suggest that this situation existed as far back as the Montreal airport which certainly was the first large undertaking. From that point on we were faced with a succession of large terminal buildings, secondary terminal buildings, and small terminal buildings. As every member of the committee knows, this situation developed in a relatively short period of time. Not very many years ago if one were travelling across Canada and stopped in almost any city he would find not much more than a leanto. The department was not geared to deal with items of this magnitude. We did not have the men or experience necessary. All these factors are involved. In many cases in respect of some of the major buildings the time was very limited and usually involved a target date. That is one side of the problem.

Along with that side of the problem there existed a difficulty in respect of the practice of air lines. Ever since the first plans were drawn up in respect of the Montreal terminal we have faced this problem. Air lines, such as Air

Canada, for example, have gone through at least five different types of equipment. For instance, if one week you are designing a terminal, knowing that aircraft to be used will carry 50 passengers, and the following day, almost, you find out the air line is not going to use that type of aircraft but a different kind designed to carry 150 passengers, it is obvious you are going to be in real trouble.

There are other problems inherent to this area in that Air Canada at one time was operating with Viscounts on secondary routes. Air Canada then supplemented these routes with Vikings. Again the size of the passenger load increased. This was done by Air Canada with the idea of giving better service. We have no control over these factors and certainly do not want to have any control, but these are difficult things to foresee.

Also involved in this problem is the fact that the scheduling of flights is in the hands of the air lines. While we work very closely with the air lines and know their plans in respect of what their flight operations and frequencies will be, if they change this for any operational reason we run into difficulty. If for example we have planned on two Viscounts, if you like, meeting at a relatively small city at the same time we will expect to have to provide accommodation, in respect of passengers, visitors and friends, in the building for perhaps 150 people. If suddenly you are confronted with four Vikings meeting at the same time you will be looking at a crowd of some 400 or 450 people.

There has been a departmental problem involved in attempting to meet these situations. We had very little experience when we began the Montreal terminal. One could look anywhere practically in the world without finding the same problem with which we were faced in that connection. Air lines in the United States at that time were just beginning to move into large terminal buildings. Furthermore, we just could not look to any country to find a precedent, if you like, for our problems, because we are confronted with a number of cities scattered right along and across the border carrying on operations on a different basis than the normal international operations. We also have a domestic service to contend with.

A great many things have happened in respect of the air operation industry on the air side which have been extremely difficult to keep abreast of, and one must remember that plans must be made in advance. There was no one really that we could turn to, and certainly the department consulted everybody available. This was another of the problems in respect of designing the terminal buildings. Many factors were involved.

Mr. WINCH: Mr. Chairman, I am very grateful for the statement just now made by Mr. Scott. The statement intrigues me and is of interest to me. Over the last two or three years I have had the opportunity of speaking with the top executives of T.C.A. and also last year with two top executives of B.O.A.C. They told me that when they are planning for the purchase of new aircraft they have to calculate anywhere from three to seven years in advance of ordering the aircraft.

Applying this experience in respect of Trans-Canada Air Lines or Air Canada, the officials must have had some idea regarding the utilization of those aircraft, landing strips and terminal facilities required. I am sure I am correct in what I am saying because of my information in respect of B.O.A.C., Air France and the Scandinavian Air Lines which fly into Canada. In respect of our own Canadian operations the officials must have known three to seven years in advance of ordering, the type of aircraft to be used and the routes to be travelled as well as the landing facilities required. Why was it not possible through co-operation between the departments and the air lines to forecast the type of difficulty you eventually ran into?

Mr. SCOTT: What you suggest in respect of planning ahead for the purchase of aircraft is quite true, as I understand the situation, but I can assure you that

the department has and does work very closely with the air lines companies in respect of planned schedules.

Mr. WINCH: I understand they must plan three to seven years ahead.

Mr. SCOTT: Yes. Five years ahead we can tell you what Air Canada proposes for Toronto, but that was not the case a few years ago. What happened at that time was that the air lines operators did not themselves really foresee going into large jets as quickly as they did. However, in the air transportation industry once a better type of equipment is available competitors have to obtain it otherwise they will have no traffic.

What happened as far as we were concerned is that all at once there was a large inflow of entirely new and large types of equipment. This situation was taken into account in respect of the design of airports, terminal plans and other things. However, if you look around at this moment you will see that we are concerned with what is going to be a smart jet aircraft but we do not know which one. We cannot operate on that basis regardless of staying on top of things, because they make their decisions on a scientific basis bearing in mind the schedules they are going to operate and traffic they are going to carry. We are aware of air lines planning regarding their intention in respect of co-ordinating their schedules, but within two years if they change the load factor, change the frequency or something of that nature we have an entirely different number of aircraft arriving at a terminal at one time.

The VICE-CHAIRMAN: Are there any other questions?

Mr. WAHN: I should just like to ask whether, in view of the expressions of opinion by members of this committee at today's meeting, there is any intention of tightening up the situation in respect of plans and specifications?

Mr. SCOTT: I think we are doing a lot better right now in this regard.

Mr. WINCH: And you intend to do better yet in the future; is that right?

Mr. SCOTT: Yes, sir.

The VICE-CHAIRMAN: Are there any further questions in respect of paragraph 31?

Paragraph 33 is next.

Some hon. MEMBERS: Carried.

The VICE-CHAIRMAN: I think the next paragraph for consideration is 36.

Some hon. MEMBERS: Carried.

The VICE-CHAIRMAN: I know that the members of this committee are very anxious to sit tonight but there are very important reasons why perhaps we should not. In the first place the House of Commons will be in session and we must look after the country's business. The Prime Minister is arriving back tonight and somebody should go to meet him. There is a football game taking place as well. We will not sit until next Tuesday at which time we will meet again in this room, I understand at 9.30 in the morning.

May I request for the benefit of those of you who arrived late that the report of the Minister of Finance on the exchange fund account which was distributed to you should be brought to the next meeting because that is the item we will then be discussing.

May I also take this opportunity of thanking the witnesses today who have done a very excellent job and given a great deal of valuable information to the members of this committee. They have promised that even though they are in the process of tightening things up at the present time they will make these things even tighter yet.

Mr. LESSARD (*Saint-Henri*): We should give a hand to our president.

The VICE-CHAIRMAN: Thank you very much.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

TUESDAY, JULY 21, 1964

WITNESSES:

Mr. R. B. Bryce, Deputy Minister of Finance; Mr. A. M. Henderson,
Auditor General of Canada; and Mr. G. R. Long, of the Auditor
General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Grégoire,	Pilon,
Cameron (<i>High Park</i>),	Gray,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>)	Rock,
Crouse,	Leblanc	Rondeau,
Danforth,	Legault	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	Southam,
Fane,	Mandziuk,	Stefanson,
Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Grafftey,	Pigeon,	Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, July 21, 1964
(24)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Crouse, Fane, Forbes, Francis, Hales, Harkness, Leblanc, Legault, McLean (*Charlotte*), McMillan, Nowlan, Pilon, Rinfret, Rock, Ryan, Stefanson, Stenson, Tardif, Tucker, Wahn, Winch (23).

In attendance: From the Department of Finance: Mr. R. B. Bryce, Deputy Minister; Mr. A. B. Hockin, Director Financial Affairs and Economic Analysis Division; Mr. H. D. Clark, Director Pensions and Social Insurance Division; Mr. D. W. Franklin, Director Programme Analysis Division; Mr. M. H. Wilson, Financial Affairs and Economic Analysis Division; Mr. H. W. Johnson, Director Accounting Services Branch, Comptroller of the Treasury, Mr. Scott Robertson, Authorities Branch, Comptroller of the Treasury; From the Bank of Canada: Mr. A. C. Lord, Assistant Chief, Foreign Exchange Department; and Mr. A. M. Henderson, Auditor General of Canada, and Messrs. Long, Crowley, Chapman and Laroche of the Auditor General's office.

Mr. Baldwin thanked the Vice-Chairman, Mr. Tardif, for presiding at sittings last week.

The Chairman announced sittings for tomorrow of the steering subcommittee and the Main Committee to consider "draft" reports to the House.

The Committee resumed consideration of the 1962 carryover items and the 1963 Report of the Auditor General.

On "*Advances to Exchange Fund Account*", (paragraphs 141 and 194 of the 1962 Report and 175 of the 1963 Report), Mr. Henderson commented briefly and was examined thereon.

Mr. Bryce was called, and after introducing Messrs. Hockin, Wilson and Lord, commented on the Report of the Exchange Fund Account by the Minister of Finance, tabled in the Committee on July 16, and was examined thereon.

The Committee agreed that the Exchange Fund Account Report of the Minister of Finance be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix*).

The questioning of the witnesses still continuing, at 10.55 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(25)

The Committee resumed at 3.40 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Crouse, Danforth, Fane, Forbes, Francis, Gendron, Hales, Harkness, Legault, McMillan, Southam, Stenson, Tardiff, Tucker, Winch (17).

In Attendance: same as at morning sitting, with the exception of Messrs. Hockin, Wilson and Lord.

The Committee resumed consideration of the 1962 and 1963 reports of the Auditor General.

On paragraphs 62, 144, 145 of the 1962 Report, and 52, 124 and 125 of the 1963 Report, relating to superannuation matters, Mr. Henderson made a lengthy statement explaining their background. He referred to previous recommendations of the Committee, and also the statement of the Minister of Finance to the House on March 6, 1964, and was examined thereon, assisted by Mr. Long.

Mr. Bryce commented on Mr. Henderson's statement, supplied additional information and was examined thereon.

On paragraphs 53 and 54 of the 1963 Report, dealing with additional superannuation items, Messrs. Bryce and Henderson reviewed these paragraphs and were examined thereon, assisted by Messrs. Long and Clark.

The questioning of the witnesses still continuing, at 5.25 p.m., the Committee adjourned until 8.00 p.m. this evening.

EVENING SITTING

(26)

The Committee resumed at 8.10 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Danforth, Fane, Forbes, Francis, Hales, Leblanc, Pilon, Rock, Southam, Stefanson, Stenson, Winch (15).

In attendance: (same as at afternoon sitting).

Mr. Henderson clarified information given at afternoon sitting on paragraph 54 of the 1963 Report.

On paragraphs 55, 56, 57, 58, 59, 45, 60, 61, 110 and 123 of the 1963 Report and 66, 140 and 142 of the 1962 Report, which included, amongst other items, interest charges on loans to the National Capital Commission, and Governor General's Warrants, Messrs. Henderson and Bryce commented on these paragraphs, supplied additional information to the Committee, and were examined thereon.

The questioning of Mr. Bryce being concluded, the Chairman thanked him on behalf of the Committee.

At 10.10 p.m., the Committee adjourned until 3.30 p.m. on Wednesday July 22, 1964.

M. Slack,
Clerk of the Committee

EVIDENCE

TUESDAY, July 21, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. The meeting will come to order.

I want to express my appreciation to the Vice Chairman, Mr. Tardif, who presided at the last meeting and at the tag end of the meeting a week ago. I understood you had a fruitful and profitable meeting with the Department of Transport.

I hope that, if time permits, we will be able to submit to the main committee at an in camera meeting the third interim report which, you may recall, I spoke to you about some time ago and which will deal with all the matters we had before us from the time of the inception of the committee until June 30. If time permits I would hope that possibly tomorrow we might meet and consider this report before its submission. I hope that the steering committee will meet to consider a draft for the fifth interim report which will deal with the Canadian Broadcasting Corporation so that this too can be submitted to the main committee for its approval or change, as the case may be. It may be before the end of this week.

Now, gentlemen, you have all received, I think, notices which indicate the matters which are going to be dealt with today and which involve the appearance here of officials of the Department of Finance.

There are a number of items in both the 1962 and the 1963 reports, and I think some of these will probably be dealt with together as they deal with the same subject matter.

First, let me introduce to you Mr. Robert Bryce, deputy minister of finance, who, of course, is well known to all of us here. He has had a very long and distinguished career in the public service in many fields. He was before the committee last year briefly, and it was understood that some of the matters which we then dealt with would be the subject of further discussion at this particular meeting. Before calling on him, however, at which time he will introduce his officials, I shall ask Mr. Henderson to make an opening statement from the viewpoint of the various matters which we will be discussing during the day. Mr. Henderson?

Mr. A. M. HENDERSON (*Auditor General of Canada*): Mr. Chairman, we have a number of paragraphs regarding matters affecting Mr. Bryce's department, and referred to in my 1962 and 1963 reports, and we perhaps will deal with them on the subject basis in order to reduce the number of paragraphs and to keep the subject matter together. It will be necessary to explain the background of some of these items to you, because, as you know, we have been jumping around a little in our meetings, and moreover a number of the matters are carried forward from your sessions last December. At that time they were, in several cases, the subject of recommendations you made in your report at that time. Therefore, if you will bear with me, I may sound a little lengthy in the way of details on the subject matter, because of the importance of the figures and the principles. We are most anxious to get it across to you as broadly as possible.

The CHAIRMAN: Let us now deal with paragraph No. 62 of the 1962 report and paragraph No. 52 of the 1963 report:

62. *Government contributions not made to superannuation accounts.* In last year's report (paragraph 59) attention was drawn to subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c.47, which reads:

There shall be credited to the superannuation account, as soon as possible following the authorization of any salary increase of general application to the public service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this act, as a result of such salary increase.

Similar provisions are contained in the Canadian Forces Superannuation Act, 1959, c.21, and the Royal Canadian Mounted Police Superannuation Act, 1959, c.34.

It was stated last year that no special credits were given to the public service superannuation account, the Canadian forces superannuation account or the royal Canadian mounted police superannuation account (with offsetting charges to expenditure) to provide for the increases in benefits payable as a result of the salary and pay increases granted to the members of the public service, the armed forces and the Royal Canadian Mounted Police during the year ended March 31, 1961—although the additional liabilities resulting from these increases were estimated at \$80,700,000, \$79,050,000 and \$1,760,000, respectively.

It was also mentioned in last year's report as being understood that, so far as the public service superannuation account was concerned, the Department of Finance took the view that, since the salary increases during 1960-61 had been granted to different groups of civil service classes at intervals over a period of several months, they did not represent a "salary increase of general application" for the purposes of the above-quoted statutory requirement.

No contribution was made to the public service superannuation account during the year under review in respect of the salary increases, ranging up to \$1,000 per annum, granted to approximately 7,000 employees in certain classes in the civil service, approved by the treasury board on February 15, 1962 retroactively to July 1, 1961. We were informed by the department that no estimate was available of the additional liability that was thereby imposed upon the account, and that no request had been made to the department of insurance for the making of such an estimate.

If this practice is continued, and the special credits referred to in subsection (2) of section 32 of the act are not given to the public service superannuation account (with offsetting charges to expenditure) when increases are granted during a fiscal year to one or more substantial groups of civil service classes, the subsection in question will be rendered inoperative. To the extent that the practice is continued, the present considerable actuarial deficiency in the Account will continue to mount.

52. *Government contributions not made to the public service superannuation account.* subsection (2) of section 32 of the public service superannuation Act, 1952-53, c. 47, reads:

There shall be credited to the superannuation account, as soon as possible following the authorization of any salary increase of general application to the public service, such amount as, in the opinion of

the minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this act, as a result of such salary increase.

In paragraph 62 of last year's report, reference was made to the increase in the actuarial deficiency in the superannuation account when no special contributions were made to provide for the increased cost of benefits payable under the act as the result of salary increases that had been granted to substantial groups of civil service classes.

It had been announced in 1961 that future pay adjustments would be based on a program of cyclical salary reviews, and the civil service classes had been divided into four large groups for review purposes.

In December 1962 the treasury board approved of salary increases with effect from October 1, 1961 for the group which includes the administrative, clerical and related classes with about 70,000 employees. Increases were also approved in December 1962 for nurses and hospital staff with effect from January 1, 1962 and for the penitentiary service with effect from April 1, 1962. Increases similar to those given civil servants were given to employees of certain crown corporations, including many if not all of those that are under the Public Service Superannuation Act. As was the case when salary increases were approved in the two previous years, no special contribution was made to the superannuation account with respect to the increases granted in 1962-63.

Salary revisions for another large group of employees were approved on July 9, 1963 with effect from October 1, 1962.

Thus salary increases have been approved for practically the whole public service since 1960 without any special credits having been given to the superannuation account as required by subsection (2) of section 32 of the act quoted above. The view taken by the Department of Finance that the granting of increases on a cyclical basis does not result in a "salary increase of general application" has rendered subsection (2) of section 32 of the act inoperative, with a consequent significant increase in the actuarial deficiency in the account.

In paragraph 124 of this report comments are made regarding the balance at credit of the account at March 31, 1963 and the basis of reporting the actuarial deficiency.

Mr. HENDERSON: The first of these, to which we have referred is paragraph No. 62 in my 1962 report. No government contributions were made to the public service superannuation account. While considering this we could also consider paragraph 52 in my 1963 report. You might like to have it open before you. It is page 25 of the 1963 report.

This matter was first discussed in the committee—that is, of course, paragraph 62 of my 1962 report—last November. I explained how I first brought it up in my 1961 report when following the granting of salary increases to different groups in the public service over a period of several months, any credits, that is to say, credits with offsetting charges to budgetary expenditure, were made to this superannuation account as is required by section 32 of the Public Service Superannuation Act which I quote in my report.

The Public Service Superannuation Act called for credits in respect of salary increases in 1960 and 1961—which is the first year that this was not done—amounting to over \$160,000,000.

The next year, 1961-1962 with respect to salary increases, they ranged up to \$1,000 per annum granted to approximately 7,000 employees in certain classes of the civil service and approved by the treasury board on February 15, 1962,

retroactively to July 1, 1961. No estimate was available of the additional pension liability cost this year because no request was made to the department of insurance to make such an estimate.

Mr. Bryce appeared before the committee on December 6 last and made a lengthy statement which is to be found in the evidence at pages 225 to 230.

The CHAIRMAN: I am sorry to interrupt you Mr. Henderson, but Mr. Bryce has indicated to me that he had been under the impression that the exchange fund would be discussed this morning, and the officials he has brought with him are those who will deal with it.

Mr. R. B. BRYCE (*Deputy Minister, Department of Finance*): The clerk told me that we would be dealing first with the exchange fund.

Mr. HENDERSON: I was following the order that we have before us.

The CHAIRMAN: The exchange fund does appear to be at the beginning of it.

Mr. HENDERSON: Under our present procedure the exchange fund will be the third item. If you wish to switch over to the exchange fund, it is all right with me.

Mr. BRYCE: I do not mind. I just would ask for a moment of time in order to change teams. That is all.

The CHAIRMAN: If we could, it might expedite matters, simply because we have officials from the Department of Finance who are prepared to deal with the exchange fund. If this is satisfactory to the committee it would save the delay of Mr. Bryce having to have other officials here.

Mr. TARDIF: We announced at the last meeting that we would make a start this morning with the exchange fund.

Mr. HENDERSON: My apologies. I thought we were following the schedule. But we can return to the other subject which will keep.

The CHAIRMAN: Thank you.

Mr. HENDERSON: Paragraph 141 is the one dealing with the advances to the exchange fund account.

Mr. WINCH: You are referring to your 1962 report.

Mr. HENDERSON: That is right. As stated in this note, in its fifth report, 1961, this committee recommended that the Minister of Finance be requested to submit to the committee at its next session a report dealing with the desirability of writing off the amount in the account with appropriate parliamentary authority, for example, as against the reserve for losses on realization of assets, the committee stated that the importance of the problem is such that it believed that at the next session of parliament special attention should be given to the problem, including the question of transferring annually to the consolidated revenue fund the realized profits or losses from trading operations and re-evaluation of holdings.

In dealing with this matter today when we have the advantage of Mr. Bryce's presence, may I suggest that we also include paragraph 194 dealing with the exchange fund account, and also paragraph 175 of my 1963 report which read as follows:

194. *Exchange fund account.* The exchange fund account, first established by the Exchange Fund Act, 1935, c. 60, and continued by the Foreign Exchange Control Act, 1946, c. 53, now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The purpose of the account is "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the Exchange Fund for its financial year ended December 31, 1961 were examined pursuant to the requirement of

section 27 of the Currency, Mint and Exchange Fund Act and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament, and in accordance with that requirement it is now certified that the transactions in connection with the account for the year ended December 31, 1961 have been in accordance with the provisions of the act, and that the records showed truly and clearly the state of the account.

The following is a summary of the transactions in the account for the year ended December 31, 1961 compared with the transactions in the previous financial year:

	Year ended December 31	
	1961	1960
Balance at January 1	\$ 1,929,536,000	\$ 1,969,513,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of earnings	32,536,000	25,513,000
Repayment of advances (net)	—	47,000,000
	32,536,000	72,513,000
	<hr/>	<hr/>
	1,897,000,000	1,897,000,000
Add:		
Advances (net) received during the year	233,000,000	—
Earnings on investments during the year (to be paid into the Consolidated Revenue Fund)	32,606,000	32,536,000
	<hr/>	<hr/>
Balance at December 31	\$ 2,162,606,000	\$ 1,929,536,000
Represented by:		
Canadian dollars	\$ 844,000	\$ 382,000
United States dollars and securities	1,128,605,000	905,919,000
Gold	987,296,000	882,258,000
Suspense Account	3,000	—
	<hr/>	<hr/>
	2,116,748,000	1,788,559,000
Deficit	45,858,000	140,977,000
	<hr/>	<hr/>
	\$ 2,162,606,000	\$ 1,929,536,000

The deficit of \$45,858,000 at December 31, 1961 represented the difference between (a) \$133,941,000 for the net loss on revaluations of gold and foreign currencies reduced by profits on dealings in gold and foreign currencies and securities since the establishment of the exchange fund account in 1935, and (b) \$88,083,000 for the exchange gain arising from valuation of United States dollar and gold holdings at the exchange rate of \$1.04 11/32 Can.=\$1.00 U.S. at December 31, 1961.

175. *Exchange Fund Account.* The Exchange Fund Account, first established by the Exchange Fund Act, 1935, c. 60, and continued by the Foreign Exchange Control Act, 1946, c. 53 now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The purpose of the Account is "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the Exchange Fund for its financial year ended December 31, 1962 were examined pursuant to the requirement of section 27 of the Currency, Mint and Exchange Fund Act and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament, and in accordance with that requirement, it is now certified that the transactions in connection with the account for the year ended December 31, 1962 have been in accordance with the provisions of the Act, and that the records showed truly and clearly the state of the account.

The following is a summary of the transactions in the Account for the year ended December 31, 1962 compared with the transactions in the previous financial year:

	Year ended December 31	
	1962	1961
Balance at January 1	\$ 2,162,606,000	\$ 1,929,536,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of earnings	32,606,000	32,536,000
	<hr/> 2,130,000,000	<hr/> 1,897,000,000
Add:		
Advances (net) received during the year	521,000,000	233,000,000
Earnings on investments during the year (to be paid into the Consolidated Revenue Fund)	35,227,000	32,606,000
	<hr/> 2,686,227,000	<hr/> 2,162,606,000
Balance at December 31	2,686,227,000	2,162,606,000
Represented by:		
Canadian dollars	160,000	844,000
United States dollars and securities	1,941,310,000	1,128,605,000
Gold	763,169,000	987,296,000
Suspense Account		3,000
	<hr/> 2,704,639,000	<hr/> 2,116,748,000
Surplus (Deficit)	18,412,000	(45,858,000)
	<hr/> \$ 2,686,227,000	<hr/> \$ 2,162,606,000

In the year under review the value of the United States dollar increased from \$1.04 11/32 Canadian at December 31, 1961 to \$1.07 23/32 at December 31, 1962 and the deficit of \$45,858,000 at December 31, 1961 was replaced by a surplus of \$18,412,000 at December 31, 1962. This gain of \$64,270,000 resulted from the following:

Net profit on sales of U.S. securities	\$ 2,846,000
Gain on sales of gold	2,095,000
Exchange valuation credits (net)	59,329,000
	<hr/> \$64,270,000

It should be noted that the surplus of \$18,412,000 at December 31, 1962 would have been considerably larger at that date if losses accumulated in the Account, and representing a cost of exchange management since its inception, had been written off in the central Government accounts. In paragraph 141 of our Report to the House of Commons for the fiscal year ended March 31, 1962 we recommended that provision be made for transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and revaluation of holdings of gold and foreign currencies. This recommendation is now repeated.

Likewise on the exchange fund account, which brings the situation up to March 31, 1963.

When he appeared before the committee on December 13, 1963 Mr. Bryce stated (pp. 287-290 of the evidence) that he had found that while a draft report had been prepared in 1962 and approved early in 1963 by the then minister of finance, it had never been presented to the committee either in 1962 or in the earlier session of 1963. In the meantime he pointed out that the situation had been overtaken by the change in exchange position referred to in paragraph 141 which really called for a rather different content of the report. He therefore proposed to discuss the revision of this with the minister and would be tabling the report requested by the committee in due course. I mentioned this to you on May 25th in my follow up report on the recommendations contained in the committee's fourth report 1963.

Mr. Bryce has now completed this report and I believe copies were distributed to the members at the last meeting on July 16.

Mr. McMILLAN: What are the numbers again?

Mr. HENDERSON: Paragraphs 194 and 175 of the 1963 report which brings this situation up to March 31, 1963.

The CHAIRMAN: I shall now ask Mr. Bryce to speak to this particular subject, but before doing so he may introduce the officials who have come with him from the department who might be called upon to answer specific questions. Mr. Bryce?

Mr. BRYCE: Thank you. I have with me Mr. Hockin, sitting beside me, and Mr. Wilson, of the Department of Finance and Mr. Lord of the Bank of Canada. The latter two gentlemen are sitting at the side of the room. I should be glad to answer questions which will no doubt arise in the minds of the members of the committee as a result of this report of the minister which was distributed late last week. I propose to commence with a modest apology. There is a clerical error at the bottom of page 10. The date there should be 1963, in the bottom line, rather than 1964. I think it is evident from the context that that should be the case. I think this report presents the history in some little detail, and we have endeavoured in the tables attached to it, and in the summary of tables on page 9 and 10, to indicate where the small surplus in the fund has now come from, in terms of earnings and re-evaluation profit and losses. That is the main purpose of the report. The last two pages deal with the question of taking these profits or losses into the government accounts. Therefore, I think that the main statement can be taken as having been made in the report.

I think the only difference that now lies between the department and the minister, on the one hand, and the Auditor General's recommendations on the other, concerns the treatment of revaluation profits and losses. Perhaps I might direct your attention to the paragraph at the bottom of page 11 and the top of page 12 of the report, in which the minister states his view on that point.

Would it be proper for me to read that paragraph into the record?

The CHAIRMAN: If you would, Mr. Bryce.

Mr. BRYCE: The minister says:

I would not propose that any decision now be taken to transfer to the consolidated revenue fund any future profits or losses at our year-ends arising from changes in exchange rates. We now have a formal par value for the Canadian dollar established by law. In our accounts we now value our foreign exchange and gold holdings at that par value (with suitable allowance for shipping costs on gold). This will give more stability to the accounting valuations. Any change in the par value is a hypothetical contingency which does not require action now. To require by law that any profits or losses arising from changes in the year-end valuations of our reserves be brought into budgetary revenues or expenditures immediately thereafter could have led at times in the past to serious distortions of our budgetary accounts and caused undesirable confusion and uncertainty as to the state of the budget. We can and do take into our accounts the changes in value of the government's foreign cash balances that are held for current operating purposes, but these are significantly smaller and are required for immediate use. The exchange reserves are held for national economic purposes and can properly be treated in a different manner.

I think perhaps, Mr. Chairman, that that is the one paragraph that merits bringing specifically to the attention of members of the committee at this time. I think that is sufficient introduction.

The CHAIRMAN: Thank you. Perhaps before any further comments are made or questions are put you might agree that this particular report of the Minister of Finance to our committee on the exchange fund account, together with the annexed tables, be printed as an appendix to today's proceedings. Is that agreed?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Winch.

Mr. WINCH: Mr. Chairman, I have a couple of questions to ask at the moment. In respect of myself, if we go beyond \$100 in finance I am mixed up.

I may have missed this point in the report but as this interests me could I ask what the gold holdings in Canada are and if they are used very often on this exchange. Also, I would like to know in what amounts they are held. I ask the latter question because of the inclusion of shipping costs.

Mr. BRYCE: The gold holdings at the end of June were \$931.3 million. They have been increasing gradually since the low point of \$669 million reached at the time of the exchange crisis in June of 1962. Our normal operating transactions in the exchange fund are carried on in U.S. dollars, foreign exchange, rather than in gold. But, we do hold a fraction of our reserves in gold. It is now 30 odd per cent, 36 or 37 per cent. This percentage has been increasing since October 1962, when it got down to some 24.9 per cent. But, we do not carry on the normal day-to-day operations in gold.

Mr. WINCH: With that answer, perhaps I may put my second question in a definite and understandable form. At the time of the revaluation of the dollar, I believe we had to obtain certain credits outside. What is the reason we did not use our gold instead of having to obtain credits? In addition, outside of the free market where I seem to remember that a law was passed, does all the gold production in Canada come to the federal treasury, or is it sold to the United States?

Mr. BRYCE: This is a double barrelled question.

Mr. WINCH: I meant it to be double barrelled in order to get the answer.

Mr. BRYCE: First in respect of the exchange crisis of 1962, the crisis itself followed the actual revaluation which, as I recall, took place some time early in May.

When it was necessary to obtain additional resources for the exchange fund late in June, 1962, the gold reserves, as well as the exchange reserves, had been drawn down to levels where it was felt these had to be increased. To sell the remaining gold at that time for foreign exchange would not have increased the total of our reserves; it would only have changed their form. Consequently, it was necessary to find some other source of additional reserves; this we did by entering into a number of arrangements. I did not bring with me the details of these arrangements, but you will recall that in all they added something in the order of \$1 billion to the reserves available to the government for exchange stabilization purposes.

Mr. WINCH: May I ask a supplementary question?

Mr. BRYCE: That is just the first barrel, first of all. Do you wish me to answer the second barrel?

Mr. WINCH: Yes, would you answer the other barrel?

Mr. BRYCE: In respect of the other question concerning the purchase of gold production, I do not believe that at any time there has been any legal barrier to gold producers selling their production anywhere they wish. I do not recall offhand whether or not this is the situation now, but for some years it was a condition of obtaining the emergency gold mining subsidies that one sold the gold to the mint at the standard price. This arose at a time when there was a market in various parts of the world for gold at a higher price than it was dealt with in monetary terms by the government and central bank.

I believe that some of our gold is not sold to the mint, but that is only a modest fraction of the total.

In recent years, since mid 1962 probably, we have been buying the gold that has been sold to the mint, which is the great bulk of the output, to add to our reserves, and that is the chief factor which has brought about the increase from the levels of the \$600 million odd that I mentioned, up to the \$900 million odd at the present time.

Mr. WINCH: Mr. Chairman, I should like to ask a supplementary question which I think will explain why I posed that double barrelled question.

Does the Bank of Canada hold all the gold reserves on behalf of Canada and, if so, at the time of what I believe you yourself called the dollar crisis in 1962, can you tell the members of this committee why, there being no legal barrier to the selling of Canadian produced gold to the United States, from a financial point of view and from the point of view of the federal treasury of Canada, the Bank of Canada did not acquire all Canadian gold and place it on the foreign exchange in order that we could avoid being placed in the position we did find ourselves in, in respect of the exchange fund? Is that question understandable?

Mr. BRYCE: Your question is understandable but whether I can recall the details or not, I am not sure, Mr. Winch.

First of all, in respect of the bank holding the gold, gold holdings are almost all legally in the possession of the government. The exchange fund is operated by the Bank of Canada for the Minister of Finance. The holdings are in the hands of the Minister of Finance on behalf of the government so that they are available for disposition as he directs, and the bank carries out the day to day operations in accordance with those directions.

In respect of your second point, why the gold holdings could not have been used to prevent or obviate the exchange crisis of 1962, I should perhaps

say we were taking gold fully into account in our reserves in 1962, and what was necessary, as I indicated earlier, was to add to the total of the reserves including all the gold we had accumulated.

In so far as the gold is concerned that had been produced in Canada in the years preceding 1962 and sold abroad as most of it was, if you consider the period from the end of the war up to 1962, you will see that those sales helped to meet our current foreign exchange requirements year by year.

Mr. WINCH: This was done by selling the gold outside and receiving the foreign exchange; is that right?

Mr. BRYCE: That is right. We received the foreign exchange which we used to pay our bills abroad during that period.

Mr. WINCH: I have just one more question to ask, if I am not boring the committee, because I think if we have a clear picture of this situation it will be of help to us.

May I ask Mr. Bryce, or the representative here from the Bank of Canada, whether we can be given in a concise but understandable way, and I know that is perhaps difficult when dealing with money, as I have found with my wife on some occasions, what is the policy position in respect of control of gold at the present time? I understand the gold goes to the mint or in any event is held by the treasurer of Canada, yet at the same time there seems to be some control effected by the Bank of Canada. Just how do these three things relate in respect of the situation such as that which developed in 1962? Are recommendations received from the Bank of Canada in respect of this matter?

Mr. BRYCE: Perhaps I can tell you how they tie in precisely in this way. The producers send their gold to the mint to be sold and refined there. The mint in turn sells the gold to the Minister of Finance who takes it into the exchange rate, or at least has done so in recent years. The Bank of Canada enters the picture simply as the agent of the Minister of Finance in buying the gold from the mint, holding it and managing it. Of course, the physical holding of the gold requires vaults and expertise involved in actually handling, shipping and transferring as well as various other things concerned.

In respect of your second question regarding the role played by the bank in such circumstances as 1962, that is quite a different matter. I am not sure how far I should expand upon this.

Mr. WINCH: Is that not the point which is of interest to the Auditor General, or am I confused in this regard?

Mr. BRYCE: I do not think the problem in respect of dealing with the crisis in 1962 is that which concerned the Auditor General.

Perhaps I should make it clear that in 1962 the government was responsible for setting the par value, which was done by order in council, a copy of which I have here and can give you if you wish.

The government, of course, received the views of the governor of the Bank of Canada when it did that, as well as the views of other officers. The government got those views when it had to take the measures which were necessary in June of 1962 to supplement our reserves in the manner I described, and to take the various actions, which we called austerity, to resolve and deal with the concern which was leading to capital movement out of Canada. Again the decisions were taken by the government, and the government received the advice of the Bank of Canada as well as other officials concerned, and, of course, the Governor of the Bank of Canada helped in arranging some of the transactions in question.

I think that perhaps gives you in a summary form the best answer I can give.

Mr. WINCH: That answers my question except in respect of one point. I will ask one further question and then allow another member to continue.

Perhaps someone could explain the advantage to Canada of not purchasing all the gold to be used in respect of its exchange fund account as compared to it being sold to the United States or other countries resulting in additional foreign currency, and as further compared to the advantage of the gold being sold directly by the producer to foreign countries? Is there an advantage to the producer selling it directly to foreign countries and receiving the foreign exchange rather than Canada itself purchasing the gold production and using it in respect of its foreign exchange account?

Mr. BRYCE: Are you asking why we do not hold more of our reserves in the form of gold, or why we do not accumulate larger reserves?

Mr. WINCH: That is my question, having in mind using the gold on the foreign exchange during a crisis such as that occurred in 1962.

Mr. BRYCE: In regard to the total amount of our reserves, we are limited by the means available to us for accumulating reserves. One can only accumulate reserves by selling more, borrowing more, spending less or lending less, and I refer to the nation as a whole. In other words, your exchange reserves are represented by that which you have accumulated out of your balance of payment for the nation as a whole. It is only by those efforts and necessary measures that you can add to your reserves as a whole.

In respect of the decision between holding these reserves in the form of gold and foreign exchange, one has to balance certain advantages of holding gold against advantages of holding foreign exchange which chiefly involves the fact that you can invest on short term and receive interest. This is the way most of our reserves have been held in the last few years and, of course, we have been getting considerable interest on them as is shown by the tables appended.

Mr. WINCH: In other words it is easier to hold foreign exchange than gold now that we are on the gold standard?

Mr. BRYCE: It is easier administratively to hold foreign exchange than gold and we also receive a return of interest.

Mr. WINCH: Thank you.

The CHAIRMAN: Are there any further questions or comments?

Mr. LEBLANC: I should like to direct my question to the Auditor General. At page 10 of the report of the minister in respect of the exchange fund account, the minister states:

It is clear from the above description that the balance in the surplus account at December 31, 1964 results from a variety of causes, including the several revaluations as well as trading operations. I propose that this be left in the fund, where it may serve as a modest reserve against any possible future revaluation losses.

Would you agree with that statement?

Mr. HENDERSON: Yes, Mr. Leblanc, and I am pleased to hear that the minister proposes that the present surplus in the exchange fund account of \$30.3 million be left there as a modest reserve against possible future revaluation losses.

I am also pleased to note that in future the annual balance of profit and loss arising from trading operations and investment, including discount on securities, trading profits and losses on purchases and sales on foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, are to be transferred to the consolidated revenue fund. In proposing this the minister is carrying out the recommendation I have

been making in my reports to the house. If you look on page 138 of my 1963 report which sets out the summary of transactions in the exchange fund account, you will see that in carrying this out the minister is not proposing, as Mr. Bryce has explained, to go any further. He will take out what you might loosely describe as the closed transactions and transfer them to the consolidated revenue fund. However, with respect to the losses from revaluation of holdings in gold and foreign currencies, he would propose to leave those in this surplus or deficit account. I cannot object to his proposal that no decision should be taken at the present time to transfer to the consolidated revenue fund any future profits or losses arising from changes in the exchange rates. As the minister says, there is now a par value for the Canadian dollar and as there is a surplus in the account, Canada's investment in the exchange fund is protected at the present time. I say it is protected because there is a credit balance of \$30.3 million, whereas in previous years there has been a very substantial deficit balance.

As you will see, on December 31, 1962 it swung over for the first time to a surplus position of \$18,400,000, whereas at the end of 1961 it had been running as high as \$46 million in the form of a deficit. It swung over to a surplus position because of the action taken on May 2, 1962 when the par value was introduced and our currency was devalued in terms of the 92½ cent rate. However, I do feel I must point out to the committee that had losses owing to exchange valuations in the past been charged to expense as they occurred, the surplus in the account today would be much larger than \$30.3 million, and would provide what might have been a more adequate reserve against possible future losses. I say this to you because as matters stand a drop of as little as two cents in the value of the United States dollar would return the account to a deficit position, and I would then again be forced to draw attention to a deficit in the account. Does that answer your question, Mr. Leblanc?

Mr. LEBLANC: Thank you.

Mr. McLEAN (*Charlotte*): Should not the bank of Canada take over the fund and operate it from the bank of Canada? Do not the central banks in Europe operate it? Is it not separated in the European central banks?

Mr. BRYCE: I would like to be able to answer that question, but I cannot. I think that in many cases the reserves do belong to the central bank and they are also operated by the bank.

Mr. McLEAN (*Charlotte*): We talk about profit and loss. There could be no true profit unless gold was revalued the world over. This is just imaginary profit that we have, going up and down with the Canadian dollar. There could be no real profit realized unless gold was revalued. Is that not true?

Mr. BRYCE: I am afraid this gets down to the meaning of words. Just what a real profit is, is a nice point. Obviously, if the gold that we hold were revalued, we could sell it for more foreign exchange than we do now.

Mr. McLEAN (*Charlotte*): When we put our dollar down, did we not actually revalue the gold ourselves?

Mr. BRYCE: We do so in our books because we keep our books in Canadian dollars, but of course what is important in our exchange reserves is what they are worth in terms of other currencies, and that is not what we are talking about this morning or what the Auditor General has been talking about. He is talking about the value in Canadian dollars, in which we must keep our accounts.

Mr. McLEAN (*Charlotte*): I am talking about real value. We are talking about the balance of payments. When Canada was in trouble with her balance of payments—the United States was in the same position—the Russians came in with about \$500 million in gold. This seemed to help the balance of payments in

the United States and help our balance of payments also. The Russians mine their gold not at \$35 an ounce, not at \$25, or \$55 an ounce. They get to work and mine it, and then they have international currency. Would it not be possible for us to do the same?

Mr. BRYCE: I must confess I do not know too much about the Russian policy in regard to gold production, or even how much the Russian gold production is. As you know from reading the papers, this is a bit of a mystery. The Russians have always regarded this as something they wanted to keep secret for their own reasons.

Mr. McLEAN (*Charlotte*): Did it not help our balance of payments and the United States balance of payments?

Mr. BRYCE: It did help our balance of payments obviously when the Russians bought wheat from us, as they did last year.

Mr. McLEAN (*Charlotte*): When we revalue our currency we help the gold mines, but we are getting around it because we agree with the international monetary fund that we will pay \$35 an ounce for gold. Is not that right?

Mr. BRYCE: Let me point out the reason we pay \$35 an ounce for gold, or its equivalent in Canadian dollars, is because that is what we can sell the gold for. The market for gold is basically set by what the United States price is. Of course, other countries also buy gold, but it is based on the same value. Secondly, we have a quite detailed and elaborate law subsidizing gold production in Canada. We do it in a rather more selective way than would be done by setting an artificial price for gold.

Mr. McLEAN (*Charlotte*): We cannot set the price for gold as long as we live up to our agreement with the international monetary fund; is that not right? We therefore get around it by subsidizing gold.

Mr. BRYCE: I do not like that phrase, "get around it".

The CHAIRMAN: I think we are straying from the subject. It is an interesting philosophical discussion, but we are mainly interested in the report before the committee.

Mr. McLEAN (*Charlotte*): I have another question about these reserves.

The CHAIRMAN: As long as it is tied to the issue that is before the committee.

Mr. McLEAN (*Charlotte*): This is the issue before us. My question is with regard to the reserves. If you go back to 1920, when we had no reserves our currency went down to a 26 per cent discount. Inside of a year our currency was at a small premium. That was the law of supply and demand at work. Could that not have worked on these reserves in the crisis we had?

Mr. BRYCE: Well, sir, it is a long time since I looked at what happened in 1920 and 1921.

Mr. McLEAN (*Charlotte*): I lived through it.

Mr. BRYCE: There are frequently quite quick changes in international affairs, capital movements, and price movements. The years 1920 and 1921 were periods in which not only prices changed quite rapidly but also capital movements were quite pronounced. It is quite understandable that our situation may have reversed very quickly; and of course the less reserves we hold, the less control we have over the value of our currency, and the more we are dependant on changes in the economic conditions and capital movements from outside to determine the value of our currency.

Mr. McLEAN (*Charlotte*): Our reserves were capital reserves at that time which just flowed over the line from the United States. Again we have a premium on Canadian money which was flowing. Of course Canadian money went as high as 6 per cent. Then we had losses, I suppose, in our gold, according to our bookkeeping.

Mr. BRYCE: That is right. That is shown in our report here.

Mr. McLEAN (*Charlotte*): I was told by a prominent banker who is now dead that there was no need to have a premium on Canadian money because you brought your gold in at 95 cents on the dollar and you had it behind your currency, and all you had to do was to issue a paper dollar in order to get a dollar's worth of gold, and that there was no need to have a premium on Canadian money, such as we had for a number of years.

Mr. BRYCE: I am afraid it is rather more complicated than that. The premium on the Canadian dollar resulted from the market forces which were allowed to determine the exchange rate.

Mr. McLEAN (*Charlotte*): You mean the demand for Canadian money?

Mr. BRYCE: That is right.

Mr. McLEAN (*Charlotte*): All the Bank of Canada had to do was to issue money and take in the gold.

Mr. BRYCE: We could have sold more Canadian dollars and taken in foreign exchange for it and thereby prevented the exchange rate from moving in the direction you indicate, but it was the government at the time who made the decision that the other was the policy which should be followed.

Mr. McLEAN (*Charlotte*): Do you mean to say that that was what led up to the crisis, that it was these years of premium on Canadian money?

Mr. BRYCE: That situation had changed before the crisis developed.

Mr. McMILLAN: You mentioned \$154,000,000 deficiency in the exchange account. That has accumulated over several years, has it not?

Mr. BRYCE: I am sorry, sir, could you just indicate it to me?

Mr. McMILLAN: In connection with the \$154,000,000 which I think accumulated, that was over a number of years?

Mr. BRYCE: Oh, yes, sir, you refer to the figure in the Auditor General's report, not the one in the minister's report.

Mr. McLEAN (*Charlotte*): Yes. Do you have the day to day profits in that account, if the dollar is constant?

Mr. BRYCE: We do not have day to day or week to week profits and loss; these have been summarized in tables one, two, and three on a yearly basis rather than on a daily basis. Of course if we reckoned them on a daily basis it would be a prodigious matter.

Mr. McMILLAN: So the big change in the account was really accounted for in 1962?

Mr. BRYCE: If you will look at table one as appended to the report you will see that the figures change. I suppose, of the lot, 1946 was when there was the biggest major change at one time, when the value of the Canadian dollar—the new par value established in Canadian dollars—equal to \$1 in the United States. That was the biggest single change as I recall the figures.

Mr. McMILLAN: And were the figures you were giving for our gold reserves in Canadian dollars?

Mr. BRYCE: No, sir, that is in United States dollar value.

Mr. McMILLAN: That is for gold on hand?

Mr. BRYCE: Yes. We give the values from month to month of our foreign exchange holdings and we give them in terms of United States dollars because of course that is the purpose for which we hold it, so as to be able to get foreign exchange when we wish it.

Mr. McMILLAN: Actually you obtained more gold than you show?

Mr. BRYCE: No, we pay the same price that we expect to realize. It depends. We may buy an odd amount from abroad from time to time at the price that it is offered to us, if we are endeavouring to accumulate gold.

Mr. McMILLAN: You pay the Canadian produce \$45 plus.

Mr. BRYCE: We pay the Canadian producer the United States price of \$35 United States per ounce. Converted to Canadian dollars, less eleven cents for insurance and for the cost of sending it to New York.

Mr. ROCK: The inflating and deflating of money between the United States and Canada is mostly due to the amount of imports or exports between the different countries. Why then in this report is there no reference to the regulations which were enforced during the time when the exchange revaluation or devaluation of our dollar occurred? Why does your report not show the regulations concerned? During the war, for instance, when we were not allowed to import certain things, as well as after the war, this would have a lot to do with the balance of our payments would it not?

Mr. BRYCE: Yes, sir.

Mr. ROCK: What I cannot understand is why there is not reference to the regulations enforced at the time which could have caused a lot of these imbalances.

Mr. BRYCE: I am afraid this is really only a report dealing with the accounting aspect of the exchange fund. If we were to go into the economic aspects it would amount to a book.

Mr. WAHN: I have two or three questions. I am not sure whether they are relevant. If they are not, you will kindly check me. My first question is this: How is the fixed rate of 92 cents for the Canadian dollar maintained? Is it maintained by reason of the operation of this fund we are now discussing? In other words, is it the buying and selling of foreign exchange in order to meet demands to maintain the value of the Canadian dollar within the range desired?

Mr. BRYCE: Yes, sir. When we are on a par value, as we are now, we are obligated to buy exchange offered to us, or to sell exchange if people demand it from us, in Canadian dollars, so that we, therefore, have to operate as the residual factor in the market day by day; and this keeps the exchange rate within the narrow margin above or below the par value.

Mr. WAHN: You say that we are obligated. Are we obligated to do so because of international reasons?

Mr. BRYCE: First, by the Breton Woods Agreements Act, and the agreement to which parliament gave approval under that act; and secondly, as a practical matter. If you are going to have a par value, this means that you are going to have to buy and sell as the market requires.

Mr. WAHN: Is that the main function of this account at the present time, to maintain the value of the Canadian dollar within one half per cent?

Mr. BRYCE: One per cent is the outside limit, and normally we work well within it.

Mr. WAHN: I gather from the report that when the Canadian dollar is devalued down, you get a surplus. Presumably if it were valued higher you would end to get a deficit?

Mr. BRYCE: Yes, that is shown up in the tables. Naturally we keep our account in Canadian dollars. If the value of the Canadian dollar is increased by a change in the par value or in the exchange rate, then the amount of holdings of foreign exchange in the Fund will be equivalent to a lower amount of Canadian dollar. That is the reason for the changes in the valuation.

Mr. WAHN: If there is a large surplus or deficit in the account, it results from the devaluation of the Canadian dollar, and it continues to affect the fund's holding of gold in United States dollars and in foreign investments?

Mr. BRYCE: Yes.

Mr. WAHN: If the fund holdings equal the value of Canadian securities, then the fund is in a position that it would not be affected one way or another by changes in the value of the Canadian dollar?

Mr. BRYCE: If the fund were holding Canadian dollars, the change in valuation would not affect the amount in the account, but in fact the fund does not normally hold Canadian dollars. When it acquires Canadian dollars they are used normally to repay advances received from the consolidated revenue fund. When it requires Canadian dollars to buy more exchange, it draws them from the consolidated revenue fund.

Mr. WAHN: I can see that. But my question is whether, if there is a surplus or a deficit, it could be minimized, and if you have to do so, you must convert the value of Canadian securities in the fund. Would there be any import exchange?

Mr. BRYCE: The holding of Canadian dollars would not offset the change in value of United States exchange because when a change in rate occurs the value of the Canadian dollar remains constant in terms of the Canadian dollars, and there is no way that we can help it. There is no way that we can hedge our foreign exchange position because the essential purpose of the exchange reserve is to maintain a net long position in foreign exchange.

Mr. WAHN: This is my final question. As I understand it, the United States settles its international accounts in gold and the Canadian dollar now is fixed at 92 cents per United States dollar. Having swung over to a fixed exchange rate, does that mean we are for all essential purposes back on a gold standard?

Mr. BRYCE: That, sir, is a long, deep question.

We are not on a gold standard in the old classical sense because in that sense the volume of your money supply is directly tied to gold movements, and I think almost all countries have departed from that in recent decades. In that sense we are not on the old gold standard. All we really are doing now is accepting gold as between central banks and monetary authorities as a valuable commodity, whose value is fixed in terms of the various moneys involved. Therefore, it is a very useful form of reserve. Gold, so to speak, is on a currency standard rather than the currencies being on a gold standard.

The CHAIRMAN: Have you a question, Mr. Harkness.

Mr. FORBES: Mr. Chairman, I have a supplementary question. Then, on what basis are Canadian dollars issued?

The CHAIRMAN: What was your question, Mr. Forbes.

Mr. FORBES: On what basis do you issue Canadian dollars since we are not on the gold standard?

The CHAIRMAN: Mr. Bryce can answer that if he wishes. But, I think we are going a long way away from our original issue.

Mr. FORBES: Mr. Chairman, I thought we might as well finalize this.

Mr. BRYCE: This is a long story and perhaps I could give you a summary sort of answer.

The volume of our money is determined really from day to day by the monetary operations of the Bank of Canada. Anyone who wants to hold coin or currency can get all he wishes in exchange for bank deposits, so the amount of those forms of money are determined by public demand. The volume of money in the form of bank deposits is controlled and regulated by the Bank

of Canada chiefly in its open market operations. By buying or selling government securities from day to day the Bank of Canada effectively regulates the volume of bank deposits in the country which is the chief form of money in terms of volume and in terms of the volume of transactions.

Mr. FORBES: So, the dollar is not related to the amount of gold we have on hand or to the volume of wheat or cattle that we have.

Mr. BRYCE: No.

The CHAIRMAN: Would you proceed, Mr. Harkness.

Mr. HARKNESS: I take it that the chief point the Auditor General is making in his report is if the profits or losses in this exchange fund are not taken into the consolidated revenue fund this distorts the budgetary picture, and when you have had a loss instead of the budget, we will say, showing a deficit of \$100 million, if the losses were \$100 million, they would show a \$200 million deficit, and if you had a profit the opposite would apply. Is this of very much importance in view of the fact that the swing over the years has resulted in very little change one way or the other. There was a big deficit position and now there is a profit position of \$30 odd million.

Mr. BRYCE: Yes.

Mr. HARKNESS: Does it make very much or any difference whether or not this is put into the budgetary picture each particular year?

Mr. BRYCE: Well, as indicated in the quotation I read from the report, we think that it would be unwise to undertake in advance that we would always bring out any revaluation profit or losses immediately after it appears in the exchange fund books. As is evident from these tables, some of these profits or losses are fairly substantial and if they were brought immediately thereafter into the budget accounts they would be quite large in relation to the budget accounts. For example, the amount of losses in 1946 at revaluation was approximately \$164 million. The budget surplus that year or the following year was some \$374 million, so you can see it would have greatly altered the relative size.

Mr. HARKNESS: It would have brought the surplus down to \$100 odd million instead of \$300 million.

Mr. BRYCE: Something of that order, yes.

The Minister of Finance does not like to commit himself and future ministers to suffer such sudden changes in their budgetary accounts without knowing in advance the kind of situation there is apt to be.

Mr. WINCH: Then we are not getting a true picture.

Mr. BRYCE: A nice question is what is a true picture. Our normal accounts reflect our expenditures and revenues and various charges that turn up in our books of an accruing nature, but these profits or losses, in fact, are changes in the Canadian dollar value of stocks of gold and foreign exchange that we hold for national economic purposes. There have been no transactions at all reflected in it; it is a change in the value that arises because of a change in the exchange rate at which we show them in our books.

I personally feel that it would confuse the average citizen if we tried to take this into account; he would not know whether the government had had a budget surplus or deficit for a particular year.

Mr. HARKNESS: I would think the one thing that should not happen is that the Minister of Finance in any particular year either could take this in or leave it out depending on how good or how poor a picture he wants to make. In other words, I think it should be on a definite basis; either it is taken into account every year or it is not taken into account at all. And, perhaps there should be a provision that at the end of each ten year period it either will be made up or whatever the balance is be put into the consolidated revenue account. But, as I say, I think it is unfair and it is likely to confuse the

accounts and present a wrong picture if, when a Minister of Finance, we will say, has a deficit of \$100 million in his budget in a particular year but because of a change in the value of the Canadian dollar there was a profit of \$150 million in this fund he took this into account and showed a balance in his budget of \$50 million when there actually was a deficit of \$100 million.

Mr. WINCH: Would Mr. Harkness permit to ask a supplementary question. I know he is interested in this and, so far as I am concerned, it would clarify the matter for me. Would Mr. Henderson tell us whether or not he is recommending that at the end of a full year there should be a true picture of the situation. Is that the basic principle involved here?

The CHAIRMAN: Mr. Winch, perhaps Mr. Bryce should answer Mr. Harkness' question first in respect of the report as given, and then Mr. Henderson could comment.

Mr. BRYCE: First, in respect of Mr. Harkness' question, I think if a minister of finance dipped into whatever surplus was available in this account, simply when it was convenient, to bolster his budget, that both the opposition and the Auditor General would very quickly draw attention to this and he would not get away without having this revealed and being severely criticized for it. So, I think we really can leave that to the processes of parliament at the time to control rather than to try to provide a law for it in advance.

Mr. HARKNESS: The general point I am trying to make is that it should be on a definite basis, either this is taken into account every year or it is taken into account only at some specific period, say at the end of ten years. In other words, your proposition really was that it essentially should be left to the discretion of the Minister of Finance whether or not it is taken into account, and I think you said you would not want to be found to take it into account in any particular year.

Mr. BRYCE: I would say that, sir; as I say, there is that implication.

Mr. HARKNESS: This is the very situation in which I think it would be unwise that it should be at his discretion.

Mr. BRYCE: So far in the history of the account no minister of finance has taken any of these revaluation profits or losses. As indicated here—and the Auditor General has indicated he concurs in this—it is now proposed that the operating profits and losses would be transferred annually. These are fairly modest items. With regard to a systematic treatment of revaluation profits or losses the difficulty one sees in providing for a systematic treatment in advance is these things are occasional and unforeseeable in their direction and magnitude. You cannot tell whether you are apt to have a profit or loss years and years ahead, or what sort of magnitude it will be.

If one were to have any established practice or policy, it probably would be better, I would think, to agree to amortize the accumulated profits or losses on some kind of a basis so that you get it into the accounts in some systematic way; but I have not been able to think of any formula that would do that in a systematic way.

Mr. HARKNESS: I do not know whether or not you would call this a systematic way, but I would think the only way in which you could do it would be on some definite period of five years, ten years, 15 years, or something else.

Mr. BRYCE: I suppose you could say that at the end of every ten years you will see what is there and write it off or take it in over the next ten years, or something of that sort?

Mr. HARKNESS: Yes.

The CHAIRMAN: Mr. Henderson, did you wish to comment on the matter brought up by Mr. Winch?

Mr. HENDERSON: Mr. Chairman, I am not sure I can agree with the minister's statement in his report to the effect that any change in the par value is a hypothetical contingency.

For 12 years prior to the fixing of the par value of May 2, 1962, we had a free exchange rate which fluctuated at the year end between a low of .9522 and a high of 1.0594. In the ten year period immediately preceding that, the formal par value for the Canadian dollar was changed on three occasions. The Bretton Woods Agreements Act, under which the present par value was established in co-operation with the international monetary fund, makes specific reference to changes in par values, and, therefore, it seems to me it would not be unreasonable that the Currency Mint and Exchange Fund Act might give specific directions with regard to the disposition to be made of profits or losses arising from changes in par value, or in the market value when there is a free exchange rate.

To sum it up and tie it in with what Mr. Harkness said, and what I said earlier, I can understand and I think you can understand the undesirability of risking any serious distortion of the budgetary accounts, and I would point out that this could be avoided by adopting the conservative practice of retaining in the account any revaluation surpluses as a reserve against future losses. As you will see, at present this account has a credit balance of \$30 million arising out of our devaluation action of 1962. Any loss in excess of the reserve should then be charged to expenditure in the year in which it occurred and in this way the investment in the exchange fund never would be impaired.

The CHAIRMAN: Are there any further questions on this?

Mr. WINCH: May I ask one more question? There is one phase which I do not have clear and which I would like to have clarified. There may be an easy answer to it. In view of the fact that over the years the federal treasury has been paying out millions of dollars annually in subsidies to gold mining production, why does Canada, which subsidizes gold mine production, not buy the subsidized gold instead of having it, to some extent, sold outside.

Mr. BRYCE: In recent years we have been buying the gold.

Mr. WINCH: All of it?

Mr. BRYCE: Almost all of it. We have been buying it at the regular price and we have been paying the subsidy quite separately under the statute. We have been buying the gold. When we do not buy it, it is for two reasons; first, we feel we then have sufficient gold reserves. It is a matter of general policy; it is a matter of judgment in respect of what the total reserve should be, and what proportion should be in gold. This is a decision of policy which the government takes. The second reason is, we sell the gold production—which to some degree is stimulated by the subsidy—when we feel Canada gets the advantage of that, because it increases our income of foreign exchange just as does any export, and that is used to pay for imports or for people travelling abroad, or to pay interest on what we borrowed. It is not thrown away; it is used to meet our bills from month to month.

Mr. HARKNESS: Are there not two factors involved in so far as subsidies on gold are concerned? One reason we pay the subsidy is to improve our balance of payment position, and the other is to keep these mines in operation which creates employment, and so on.

Mr. BRYCE: Yes, sir; I think the last point you mentioned deserves some emphasis. In the last amendment to the Emergency Gold Mining Assistance Act it was made clear that any new mine can receive the subsidy if it is in a community which has been dependant on gold mining. This largely is a subsidy to try to maintain these communities where there is almost no other alternative source of employment.

Mr. HARKNESS: It is an employment measure?

Mr. BRYCE: Yes.

Mr. WINCH: When legislation was introduced three or four years ago to the effect that they cannot sell on the free market at a price higher than \$35, was this because it would bring in an additional amount of foreign exchange over and above the \$45 which is the balance?

Mr. BRYCE: Any mine that wishes can sell in any market in which it wishes to sell, but in order to qualify for the subsidy they have to sell to the mint here. I do not think there ever has been any law against the mines exporting to the free market. I remember back in the late 1940's when I was involved in some of this, at that time a lot of the mines wanted to get the premium. Some of them did sell on the free market, particularly those that could not qualify for the subsidy.

Mr. WINCH: I seem to remember some change in legislation brought forward three or four years ago, in respect of the sale of gold.

Mr. HARKNESS: I think the change you have in mind probably involved the provision allowing any individual to buy a gold brick and keep it in a bank if he so desired.

The CHAIRMAN: We have time enough left for one question by Mr. McLean (Charlotte) and one by Mr. Crouse and then we will have to yield to the defence committee.

Mr. McLEAN (Charlotte): As I have said before, I think that any profit we make is imaginary unless it is international. Mr. Winch asked about Canadian gold. Is it not true you are buying Canadian gold because the producers are receiving more for it as a result of the discount on money. They are really receiving more than \$35 an ounce; is that right?

Mr. BRYCE: They would receive that advantage, sir, if they sold it on the London market, for example, but it is more convenient for them to sell here and they normally receive just what they would if they exported it elsewhere.

Mr. McLEAN (Charlotte): I notice the gold reserves are going up in revaluation, but if the thing was done on a 50-50 basis you would not lose anything; is that right? If you had 50 per cent gold and 50 per cent United States treasury bills, for example, you could not possibly lose because one would offset the other; is that right?

Mr. BRYCE: If the price of gold in terms of United States dollars went up, the U.S. dollar value of our gold reserves would, of course, increase, but our U.S. dollar foreign exchange reserves would remain fixed. We would get the increase in the value of the gold even if we were holding the other half of our reserves in the form of U.S. dollar investments.

Mr. McLEAN (Charlotte): But in relation to gold, if you had none, you would lose; is that right?

Mr. BRYCE: If we had no gold we would not receive any profit, for example, from an increased value in gold. We have to bear in mind the possibility of a profit on a change in the gold price, set off against the return that we can get by investment of our foreign exchange reserves in United States treasury bills. Over the years we have done a lot better by putting our reserves into investments in foreign exchange because we received a return from the investment.

Mr. McLEAN (Charlotte): You do not receive any return from gold?

Mr. BRYCE: No.

Mr. McLEAN (Charlotte): You do receive a return from your investment in the United States?

Mr. BRYCE: That is right.

Mr. CROUSE: I have just one question. This discount on the Canadian dollar does encourage foreign takeovers of Canadian industry and this is creating a problem for our Minister of Finance. Does it not follow that this is also affecting our balance of payments?

Mr. BRYCE: Mr. Crouse, I should like notice of that question because that leads to quite an elaborate analysis.

The CHAIRMAN: Mr. Bryce now has notice.

Gentlemen we will resume at 3.30 this afternoon in this room at which time we will commence with the public service superannuation fund. We now adjourn until 3.30 p.m.

AFTERNOON SITTING

TUESDAY, July 21, 1964.

The CHAIRMAN: Thank you, gentlemen, I see a quorum. The meeting will come to order. I shall ask Mr. Henderson if he will be kind enough to revert to where we left off this morning when I re-routed him to the exchange fund account to deal with matters in relation to the superannuation accounts. Mr. Henderson, there are a number of other paragraphs which you will bring up which are related to this in the 1962 and 1963 reports. You will no doubt try to pull them all together so there will be all one subject matter.

Mr. HENDERSON: The paragraph we are talking about is paragraph 62 in my 1962 report, and along with it paragraph 52 of my 1963 report deals with the same subject, namely, government contributions not made to superannuation accounts.

As the Chairman said, while we are about it, we shall also be taking into consideration in the 1962 report, paragraphs 144 and 145 which are on the public service superannuation accounts and the Canadian forces superannuation accounts respectively, and also paragraphs 124 and 125 of the 1963 report, which update the status of these two funds. I must apologize for the lengthy introduction I shall make on this subject because it is rather highly technical and involved. But I hope as I persist the issues will become clear, and as I recall to your minds the earlier discussions we had on the matter.

The CHAIRMAN: Now on the aforementioned paragraphs:

144. *Public service superannuation account.* In previous reports mention has been made of the fact that the balance of the public service superannuation account, forming part of the liability item "annuity, insurance and pension accounts", included an amount that had resulted from bookkeeping entries with counterparts in an offsetting "asset" item described as "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

Section 32 of the Public Service Superannuation Act, 1952-53, c.47, which specifies the amounts to be credited to the public service superannuation account, reads:

"32. (1) There shall be credited to the superannuation account in each fiscal year

- (a) an account representing interest on the balance from time to time to the credit of the said Account, at such rates and calculated in such manner as the governor in council by regulation prescribes,
- (b) an amount matching the total amount estimated by the minister to have been paid into the said account during the preceding

fiscal year by way of contributions in respect of current service other than current service with any public service corporation or other corporation as defined in section 23, and

- (c) such amount in relation to the total amount paid into the said account during the preceding fiscal year by way of contributions in respect of past service as is determined by the Minister.

(2) There shall be credited to the superannuation account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the minister, is necessary to provide for the increase in the cost to her majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase.

Following an actuarial valuation as of December 1, 1951, it was estimated that the actuarial liability existing under the Public Service Superannuation Act was greater than the balance then standing at the credit of the account by \$312 million and this amount was credited by means of an extra-statutory bookkeeping entry made in the fiscal year 1951-52, with an offsetting charge to the "asset" account described above. In the same year parliament voted \$98 million as a special government contribution towards amortizing this deficiency, and this left a balance of \$214 million in the "asset" account. In the years 1952-53 and 1956-57 further amounts of \$25 million and \$50 million were appropriated by parliament and written off the "asset" account, reducing it to \$139 million as at March 31, 1957. These reductions involved charges to expenditure and had the same effect from the accounting point of view as if parliamentary authority had been given for the making of additional credits to the Superannuation Account beyond those provided for by section 32 of the Public Service Superannuation Act.

In 1960-61, following an actuarial valuation made as of December 31, 1957, a further bookkeeping credit of \$137,661,000 was made, bringing the "additional credits" included in the accounts to a total of \$276,661,000, an offsetting amount being charged to the "asset" account for "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

Over the years, the Department of Finance has taken the view that the practice of enlarging the balance at credit of the superannuation account in the manner outlined above, so as to relate it to the actuarial liability, was within the authority granted to the Minister of Finance by section 64 of the Financial Administration Act, subsection (2) of which reads in part:

(2) The public accounts shall be in such form as the minister may direct, and shall include:

- (c) a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the minister are required to show the financial position of Canada as at the termination of the fiscal year.

The finance department received an opinion from the Department of Justice on December 30, 1960, which included:

Section 63 of the Financial Administration Act requires the Minister of Finance, subject to regulations of the treasury board to cause accounts to be kept to show such of the assets and direct and contingent liabilities of Canada as in his opinion are required to give a true and fair view of the financial position of Canada; section 64 requires the public accounts to be in such form as the Minister of

Finance may direct, and it prescribes that the public accounts shall include such accounts and information as are necessary to show, with respect to the fiscal year, the financial transactions and financial position of Canada. In compliance with these provisions the public accounts contain a balance sheet showing on the liability side the total actuarial liability of Canada under the Superannuation Act, and on the asset side the unamortized portion of actuarial deficiencies. The latter amount, I understand, is intended to offset the amount added to actual receipts under the Act in order to bring the liability figure up to the total possible liability under the act. These items, as I understand them, are intended to show, as required by the Financial Administration Act, the assets and direct and contingent liabilities of Canada, and in my opinion they do not affect the obligation to pay benefits under the superannuation act, or the authority to discharge accruing liabilities out of the consolidated revenue fund. Whether the statements appearing in the public accounts constitute sufficient compliance with the provisions of the Financial Administration Act is a matter upon which the opinion of the Minister of Finance is the governing factor.

We understand that the Department of Finance interprets this opinion to mean that the Minister of Finance possesses the legal authority to direct the making of bookkeeping entries enlarging the balance at the credit of the superannuation account and the recording of charges to the offsetting "asset" account at his discretion—but we feel that there was no obligation to make the entries in question.

Our view continues to be that the public service superannuation account should have been credited (in addition to amounts contributed by participants) only with amounts provided for by section 32 of the Public Service Superannuation Act, as quoted above, or by special parliamentary appropriations—and that the offsetting bookkeeping entries made by the Department of Finance, being at variance with accepted accounting practice, should not have been made. In our opinion, the actuarial deficiency remaining after credits provided for by parliament had been duly recorded should have been explained each year by means of a note to the statement of assets and liabilities.

145. *Canadian forces superannuation account.* In the 1960 report (paragraphs 100 and 108) reference was made to the non-cash or bookkeeping entry of \$326,300,000 which gave credit to this account in 1958-59, with a corresponding charge being made to the "asset" account entitled "deferred charge—unamortized portion of actuarial deficiency—Canadian forces superannuation account". The audit office view was stated, and was reaffirmed in last year's report (paragraph 114) that amounts additional to contributions by members of the forces should be credited to the account only as provided for by parliament—either under section 24 of the Canadian Forces Superannuation Act or by special appropriation.

As in the case of the public service superannuation account (paragraph 144), our view is that the actuarial deficiency remaining after recording credits provided for by parliament should have been explained each year by means of a note to the statement of assets and liabilities.

124. *Public service superannuation account.* In paragraph 144 of last year's report and also in earlier reports reference was made to the extra-statutory "bookkeeping entries" aggregating \$450 million which were made in 1951-52 and 1960-61 in order to increase the balance at credit of the public service superannuation account to the amount of the currently

estimated actuarial liability. The offsetting debits were recorded in an "asset" account captioned "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

In the years 1951-52, 1952-53 and 1956-57 portions of the 1951-52 deferred charge of \$312 million (in the amounts of \$98 million, \$25 million and \$50 million, respectively) were written off to expenditure, leaving a balance of \$139 million at March 31, 1957. This was increased to \$277 million in 1960-61, when a further entry was made to the credit of the public service superannuation account following the actuarial valuation made as of December 31, 1957.

In previous years' reports, we have expressed the view that the public service superannuation account should have been credited (in addition to amounts contributed by participants) only with amounts provided by section 32 of the Public Service Superannuation Act or by special parliamentary appropriations—and that the offsetting bookkeeping entries should not have been made. In our opinion the actuarial deficiency remaining after credits provided for by parliament had been duly recorded should have been fully explained each year by means of a note to the statement of assets and liabilities. In his budget speech of June 13, 1963, the Minister of Finance indicated his concern at the magnitude of the actuarial deficiency.

The amount of the actuarial deficiency is, in fact, considerably greater than the \$277 million indicated on the statement of assets and liabilities. This amount continues to represent the estimated actuarial deficiency at December 31, 1957. However, in our 1961 report (paragraph 59) reference was made to the fact that, as mentioned in a note to the statement of assets and liabilities as at March 31, 1961, the balance was not adjusted to reflect the additional liability resulting from general salary and pay increases during 1960-61, estimated at \$80,700,000. Moreover, as mentioned in paragraph 52 of this report, no account has been taken of the considerable (though not officially estimated) additional actuarial liabilities that arose between April 1, 1961 and March 31, 1963 as a result of salary and pay increases granted from time to time to substantial groups of Public Service employees.

Section 33 of the Public Service Superannuation Act, 1952-53, reads as follows:

The minister shall lay before parliament at least once in every five years an actuarial report on the state of the superannuation account, containing an estimate of the extent to which the assets of the said account are sufficient to meet the cost of the benefits payable under this act.

The act is silent as to the remedy to be applied when a deficiency is found to exist, and no proposal for dealing with the actuarial deficiency was made when the report on the last actuarial valuation was tabled in the house on June 20, 1960. We understand that a further actuarial valuation as at December 31, 1962 has been undertaken and is expected to be completed by March 1964.

125. *Canadian forces superannuation account.* In the last three reports, references have been made to the non-cash or bookkeeping entry of \$326,300,000 which gave credit to this account in 1958-59, with an offsetting amount being charged to the "asset" account entitled "deferred charge—unamortized portion of actuarial deficiency—Canadian forces superannuation account".

In 1962-63, following an actuarial valuation as of December 31, 1960, adjusted to March 31, 1963, a further bookkeeping credit of \$198,549,000

was made, with an offsetting charge of the "asset" account referred to above, bringing the additional amounts thus included in the balance at credit of the account to a total of \$524,849,000.

The audit office view continues to be that amounts additional to contributions by members of the forces should be credited to the account only as provided for by parliament—either under section 24 of the Canadian Forces Superannuation Act or by special appropriation. As in the case of the public service superannuation account (paragraph 124) our view is that the actuarial deficiency remaining after recording credits provided for by parliament should be explained each year by means of a note to the Statement of assets and liabilities.

We first discussed this matter, that is, paragraph 62, on November 29, 1963 (Minutes, pages 180-181). I explained how I had first brought it up in my 1961 Report when, following the granting of salary increases to different groups in the public service over a period of several months, no credits, that is, credit with the offsetting charge to expenditure, were made, to the superannuation account concerned as required by section 32 of the Public Service Superannuation Act which I quoted. The superannuation credits called for by the salary increases in 1960-61 would have amounted to over \$160 million.

Similarly action was not taken to credit the fund during the year 1961-62 with respect to the salary increases given in that year ranging up to \$1,000 per annum granted to approximately 7,000 employees in certain classes of the civil service and approved by the treasury board on February 15, 1962 retroactively to July 1, 1961. No estimate was available of the additional pension liability and cost this year because no request had been made to the department of insurance for the making of such an estimate.

Members may recall that Mr. Bryce appeared before the committee on December 6, 1963 and made a lengthy statement (Evidence, pp. 225-230) outlining the position of the Department of Finance in this matter. He did not disagree with what I had had to say in my Reports on the subject except to say that the department did not feel the salary increases were in the nature of general pay increases as set out in the Act. He indicated he was studying what arrangements could be made to deal with the situation and that the minister of finance had indicated his intention during the year to consider the action that should be taken to deal with these accounting deficiencies.

In its fourth report 1963 tabled in the house on December 19, 1963 the committee expressed concern that no contributions had been made either in 1960-61 or 1961-62 to the three superannuation accounts as required by their acts and asked that steps be taken promptly by the Executive to remedy this situation and urged the minister of finance to give the matter his early attention.

When commenting to the committee on May 26th last on action taken on its fourth report 1963 recommendations, I reminded you that a statement had been made by the minister of finance in the house on March 6th of this year in which he mentioned several adjustments being made in the accounts for 1963-64 with regard to the accumulated actuarial deficiencies in the various superannuation accounts, and said I had addressed some queries concerning these adjustments to the deputy minister of finance.

Of course, by this time my 1963 report to the house had been tabled last February and my paragraph 52 in that Report continued to bring the matter forward. I had reported there that for the third year in succession, that is 1962-63, no credits had been made to the superannuation accounts despite further rounds of increases which, I might say, had resulted in salary increases having been granted for practically the whole public service since 1960 without any special credits having been made to the superannuation account as required by

section 32 of the Act. This had not been done because the view taken by the Department of Finance continuing to be that the granting of increases on a cyclical basis did not result in a "salary increase of general application" had in fact rendered section 32 of the act inoperative—and as a consequence there has been a significant increase in the actuarial deficiencies in these accounts.

The minister of finance stated on March 6th that the government intended to deal with the accumulated actuarial deficiencies in the various superannuation accounts. He proposed that as a general policy the deficiencies existing prior to the commencement of this current fiscal year should be written off to net debt, which constitutes in effect an adjustment of prior years' accounts and would not enter into the accounts for 1963-64. He went on to say that the deficiencies which would be created by general pay increases made during 1963-64, which the law requires be charged to that year's expenditure, would, of course, be so charged. On the other hand, deficiencies arising from pay increases in 1963-64 which are not general in scope and therefore not covered by the existing law, will in future be charged to expenditures over a five year period commencing in the fiscal year 1964-65. In future, the deficiencies arising from pay increases, whether of a general or cyclical character or otherwise, will be charged against expenditures over a five year period commencing in the year in which the increases are authorized.

Accordingly he then referred to vote 68e of the supplementary estimates he was tabling under which the Department of Finance proposes to delete the existing deferred charge from the accounts of Canada and charge to net debt the unamortized portion of the actuarial deficiency of the Canadian forces superannuation account arising in periods prior to 1963-64, which is \$524,800,000. The vote would also authorize the writing off to net debt of a similar deficiency of \$6,300,000 in the superannuation account of the R.C.M.P. The actuarial liability of some \$76,000,000, including interest, arising from the general increase in pay and allowances granted members of the armed forces in 1963-64 will, he said, be charged to expenditure in 1963-64 in accordance with the terms of the statute.

He then went on to say that the quinquennial actuarial report on the public service superannuation account as at December 31, 1962 was in course of preparation. He thought it would become available in a month or two when he would then seek authority from parliament to write off to net debt the deficiency estimated in that report. The additional deficiency created by pay increases authorized during this current fiscal year will then be estimated and will be charged over a five year period commencing with the fiscal year 1964-65 in accordance with the policy he had already outlined. He said the period of five years had been selected because it is the statutory period between valuations of these accounts.

In addressing my queries on the minister's statement to Mr. Bryce, I stated firstly that when the several adjustments mentioned by the minister had been made in the accounts for 1963-64, it would appear to us that the following items will not have been adjusted when the books were closed at March 31, 1964:

- (1) the deferred charge of \$276,661,000 with respect to the public service superannuation account;
- (2) further deficiencies in the public service superannuation account created by salary increases granted since December 31, 1957.

Mr. Bryce confirmed that our understanding was correct and said that the Minister's statement on March 6th meant that it was his intention to seek parliamentary authority to write off to net debt during 1964-65 both the existing deferred charge of \$276,661,000 and an amount equal to the new actuarial deficiency which will be disclosed when the actuarial report is completed covering the five years from January 1, 1958 to December 31, 1962. In this connection I am

very doubtful whether there is any justification for writing off this new actuarial deficiency, that is, the one about to be disclosed by the actuaries, to net debt because if a five year plan of write-off is to be adopted it seems to us it should be started with this current new deficiency rather than with the one to be determined five years hence when the next actuarial valuation takes place.

My next question to Mr. Bryce had to do with the minister's statement that amounts to cover any deficiencies created by future cyclical salary increases are to be credited to the superannuation account over a period of five years. If these cyclical salary reviews are to be a continuing process, I explained that we find it difficult to associate the payment of deficiencies into the superannuation account with the period which lapses between the quinquennial valuations of the account. The acts now call for payment into the accounts of any amounts necessary to cover any such deficiency as soon as possible, and I therefore wondered whether payment over a period of five years would meet the requirement of this section. I went on to say that, from the practical point of view, if cyclical salary reviews are to be continuous and if, as in the past, these result in salary increases which in turn create deficiencies in the superannuation account, it seems obvious that the annual credit to the superannuation account could be the sum total of one-fifth of the annual deficiencies created in each of the preceding five years. Consequently, the plan could result in reduced charges to appropriations over the next few years but after that the effect might be little different than if the deficiencies were met in the year in which they were created.

Mr. Bryce informed me that it is the intention during the present fiscal year to ask parliament to amend the acts and stated that the proposed procedure was designed to ensure that once the plan gets into full operation, then in each fiscal year one-fifth of the deficiency revealed by the last preceding quinquennial actuarial valuation and one-fifth of the estimated deficiencies arising from cyclical pay and salary increases granted during that fiscal year and the preceding four fiscal years would be charged to the annual budgetary expenditures. He went on to say that the objective in providing that the deficiencies be amortized over a five year period rather than by a single charge was to ensure that there would be no undue charge placed on the budget every five years.

My feeling on this matter is that while the amortizing of deficiencies determined by quinquennial actuarial valuations over a period of five years makes good sense, it does not necessarily follow that five years should be taken for amortization of deficiencies due to cyclical pay increases. Surely the very fact that salary adjustments are on a cyclical basis itself serves to spread the cost of deficiencies over several years and adoption of a five year amortization period only further delays the charging of the expense. In short, I think it would be very much cleaner to charge it off each year as it occurs and as the act itself contemplated when it said this should be done as soon as possible.

Would you like to make a comment, Mr. Bryce?

Mr. WINCH: Before Mr. Bryce makes his comment, we have, as nearly as I could analyse it, a most important statement from the Auditor General. I presume that Mr. Bryce will have to go into a lot of detail in order to answer it, because I think it can be straightened out. It looks to me from what I have heard now that in one way perhaps the federal government has kept two sets of books, the same as the Social Credit party claim that British Columbia does. My point is, would it help in any way if, before Mr. Bryce makes a statement, some of us—we would perhaps not require an immediate answer—could at least suggest an outline, because of Mr. Henderson's statement and Mr. Bryce's answer, of the things which we would like to hear? Would that speed up our work?

Mr. FRANCIS: I would like to hear Mr. Bryce's comments. I am sure he would sort them out. I am sure Mr. Bryce is capable of putting things fairly.

Mr. WINCH: I have written down about ten questions I would like to ask about this.

The CHAIRMAN: I think Mr. Bryce will first take up the particular points raised by Mr. Henderson. Then there will probably be a discussion. I have you second on the list, Mr. Winch. Perhaps that is the best way to proceed.

Mr. WINCH: I think it might help him if Mr. Henderson's presentation was referred to.

The CHAIRMAN: I think Mr. Bryce probably has found the points of issue raised by Mr. Henderson, and then in turn we will have further questioning from the committee. Then you may outline your questions. You may find that some of them have already been answered by that time. Now, Mr. Bryce.

Mr. BRYCE: I am in the hands of the committee as to how you want me to proceed. This thing is technical and potentially confusing to those of you who have not had to deal with it from day to day, so I hope, if I assume too much familiarity on your part with it, you will not hesitate to ask me or Mr. Henderson what really is involved in some of these points. Mr. Henderson has covered quite a lot of ground on the origin of this thing and the announcement that the minister made about the policy to be followed in future. I do not think it is necessary for me to go into the background which was discussed at some length in December and which Mr. Henderson has recalled briefly now.

I should perhaps call the Auditor General's attention as well as the committee's to the fact that when he attributes something as being a decision of the department, these are matters of size and are in the nature of ministerial decisions. I think that due respect ought to be paid to the fact that they are ministerial decisions and not just some bureaucratic attitudes.

Now, the first point perhaps is to deal again briefly with the question of whether the cyclical salary increases which extended over a period—I have forgotten just how long—from 1959 to 1962 or something of that order—required contributions to be paid into the fund. The government of the day satisfied themselves that legally they did not. I was not involved in this. One can make an argument in fairly simple terms that general means general and not partial. This is about the essence of it.

Now, of course, they were more general than if we had covered only one particular class of employees or a small group of employees. How widespread something has to be before it becomes general in terms of the law is a matter of degree. In any event it is past history now, and we are dealing with a situation which existed at the beginning of the last fiscal year and with what we are going to do thereafter.

I do not think I can go further into that legal point. Suffice it to say that the minister of finance at the time and the government at the time felt that they were not required by law to deposit these amounts in the fund, or charge these amounts through to the expenditures for those years. Beyond that they have followed the action that they did.

When the present Minister of Finance looked over the situation last year he came to the conclusion that a systematic policy should be devised for dealing with these reserves. The essential problem, I would say, is when and how we take the actuarial liability which represents the present value of the future pensions that we have undertaken to pay less the present value of the future contributions which we expect to receive, and how we charge that systematically and properly to expenditures so that our accounts reflect properly first the state of our net liabilities or assets, and secondly, I would say even more importantly, so that we can be satisfied that we are reflecting in the cost of

operation each year a proper charge to maintain these funds and therefore a proper reflection of what we are really paying our employees.

This is why we have striven to try to get some systematic way to treat these accruing liabilities in future. There are all sorts of complications in doing this which I think I may mention when questions are asked if one wishes. One has to take a lot of things into account, such as the interest rate being paid by the fund, and we have to take into account what the impact is going to be of the Canada pension plan on the superannuation plan; how we are going to adjust the matter to the Canada pension plan; this is not yet completely settled because of the changes which have been made in recent months in the proposals for the Canada pension plan itself.

Again it is necessary to settle quite a number of actuarial problems in making these valuations. At a time when the Canada pension plan is bringing about changes one has to be rather careful about this.

Well, as to the conclusion Mr. Gordon came to. The systematic approach to this is represented in a statement that he made in the House of Commons on March 6, which Mr. Henderson has outlined and commented upon. In fact, there are two parts to the plan: one is to clean up the accumulated deficiencies of the past.

Mr. Gordon said that we now propose as general policy that deficiencies existing prior to the commencement of that current fiscal year (1963-64) should be written off to net debt, which constitutes in effect an adjustment of prior years' accounts. This is not going into the accounts of the current year. In other words, the main boundary line is drawn at the beginning of April, 1963.

Well, Mr. Henderson has made a comment which I will come back to, and which is one of substance. Suffice it to say the proposal is that the major deficiency of this nature has already been charged with parliamentary approval to the net debt, that is the deficiency which existed in the armed forces superannuation account and the R.C.M.P. superannuation account. I assume Mr. Henderson's comment that he has made in regard to the public services superannuation account would equally apply to the others, as they were announced on March 6.

As for the future, the minister proposed that any deficiencies arising out of pay increases from April 1, 1963, onwards would be charged to expenditures over a period of a five year cycle in each case. The deficiencies found by the future actuarial valuations would be charged over the five years immediately commencing at the time that the valuations were received.

The deficiencies arising each year from pay increases would be estimated and then would be paid off year by year over a similar five year term. I will come back in a moment to Mr. Henderson's comment and the use of a five year term there. This at least would produce a plan which would be understandable and I think about as simple as one can get it in a complicated matter of this sort. It may be oversimplifying it, but in essence what it amounts to is this: Whenever we determine either as the result of making pay increases or as a result of having a periodic evaluation made of the account, that there is not enough shown as our liability in the account, we would add that liability to the amount shown in the account, and we would add it in the first instance to the deferred charge shown on our balance sheet to which Mr. Henderson made reference, which is to be found on page 168, item 8(a).

This is one of these accounting concepts which, I must say as a non-expert, have always found hard to understand, how you show a deferred charge as an asset. However, the accountants have a way of doing it. What it means is that it counteracts a liability that you are acknowledging. We would add to the liabilities on the one side and to the deferred charges on the other these

additional estimated liabilities arising either from pay increases or from actuarial valuations. We would then be charging each year in future to our expenditure one fifth of the amount on the total deferred charges, and in that way we have a systematic means of acknowledging the cost which the employment of civil servants, with their accruing pension rights, gives rise to.

If I can return to Mr. Henderson's point about using the five years to amortize these costs arising from the pay increases each year, it is true that if the pay increases are reasonably uniform each year and we took them into the accounts every year as they are made and charged them, we might get a similar pattern over the years to what the minister has proposed. However, we cannot be confident that the pay increases will be reasonably uniform from year to year; economic conditions change moreover we are getting into a regime of collective bargaining. We do not know how this is really going to work out, and we may find that the increases in different years are of different amounts and at different rates. We, therefore, feel that it will produce a smoother curve, a smoother charge, to amortize them as well as the actuarial deficiencies over a year period.

Moreover, the liability does not really accrue immediately. The reason that we increase the liabilities of the pension fund when we increase pay is that people in future will be getting pensions based upon a higher level of pay, and the extra contributions they make to the fund will not in fact be high enough to cover the higher pensions they get because the pensions are based on the best six years, which is normally the last six years, of their service. To charge these deficiencies created by pay increases over a six year period would have some logic to it because this is the period over which the higher pay entitles them to higher pension rates. I think I mentioned last year there was some question of a choice between a five and a six year period, but we felt that it would produce a simpler and more understandable system to use the same five year period that we use for valuation purposes which is in the statute for that purpose, than to set up a six year cycle which you could argue had some logic because of the six year period in the Act.

This is an explanation of how we got the five years. I do not think that this is a matter of great moment. What is important is the government has decided that in future it will have a systematic means of charging to expenditures and to the cost of operation the increasing liabilities for pension that arise when pay is increased.

I said I would pass over the point that Mr. Henderson made about beginning this plan by charging matters to net debt. The accumulated deficiency in the armed services plan has been charged off in that way, and the same in the case of the R.C.M.P. plan. I think if we did not do the same with the public service superannuation plan, where the valuation has been delayed by the fact that the actuaries were so busy working on the Canada pension plan, we would be having a different system in connection with the public service generally than we have had for the armed services and the R.C.M.P. I think it would be illogical and confusing. When the plan gets into full operation, we will be doing what Mr. Henderson is proposing in effect, or what meets his tests and carries his judgment. It is just a question of making the transition from the earlier arrangements to this. The minister made the decision, which is reflected in his statement, that he would commence charging the deficiencies arising from April 1, 1963 onward.

If I tried to add any more I would be apt to confuse the members more than to help them.

Mr. FRANCIS: I would like to ask Mr. Bryce whether in his opinion the procedure as proposed by the minister at present meets the requirements of section 32 of the Public Service Superannuation Act.

Mr. BRYCE: We contemplate amending that either by an amendment to the statute itself or by securing an appropriation that would specifically authorize the kind of system that the minister has proposed. The provision of the act that one would have to vary is the one that Mr. Henderson has drawn attention to, that is "as soon as possible following". What we are proposing is "over a period of years following". That is the essential difference. We would also propose taking out the word "general" in it so that it will apply to salary increases however widespread. Here we get into a minor problem. Every time we increase an individual's salary rate, or something of that sort, we are obviously not going to try to assess its impact.

Mr. FRANCIS: There obviously has to be some discretion.

Mr. BRYCE: Yes, some lower boundary lines, but if there is, that will be taken up in due course in the quinquennial valuation.

Mr. FRANCIS: I followed with interest Mr. Bryce's details concerning the problems of a valuation of the fund. In his opinion is there any reason to believe that the amounts indicated in the Auditor General's report are too high or are more than would be required in fact with regard to making up the deficiencies in the fund?

Mr. BRYCE: I am not sure just which amounts you are referring to.

Mr. FRANCIS: I started off with the 1962 report and I saw the number of specific items in paragraph 62. I recognize that you cannot anticipate what the Canada pension plan will be and you cannot anticipate a retirement policy, whether or not people will retire at the age of 65. You also cannot anticipate the mortality rate, and there are many such things. However, I wondered from your comment whether you felt that there might have been a question whether the sums are on the conservative side in estimating the possible requirements.

Mr. BRYCE: I rather hesitate to generalize there. The actuaries, each time they make one of these valuations, review the experience on the points where they had made assumptions previously, and they make some modest variation of the basis on which they work.

Mr. FRANCIS: Perhaps I could put it in another way. We had a lot of discussion on funding when talking about the Canada pension fund. This is another type of public pension plan and its assets keep mounting from year to year. Do you feel that it is required in terms of public policy to stick to a strict actuarial fund?

Mr. BRYCE: We try to keep it a fully funded plan. The boundary of argument here is twofold: How far is it necessary to meet these pay increase deficiencies year by year in order to keep it fully funded, and secondly do we have the transitional problems I mentioned, which Mr. Henderson was concerned about. That is not so much a problem of keeping the plan fully funded as how to charge it through to our accounts. This is a fully funded plan, and it is necessary.

Mr. FRANCIS: This is the intent of the legislation.

Mr. BRYCE: That is right.

Mr. HENDERSON: Mr. Chairman, may I just speak to Mr. Francis' question when he asked Mr. Bryce if the figures that are shown in the third paragraph of note 62 were correct, that is to say, the additional liabilities resulting from the increases? These are figures which were obtained by the Department of Finance itself. They were prepared for the department by the department of insurance. They made this computation on what the liabilities would have been. As I have explained, they did not take them up, but they did ascertain how much they amounted to. However, in the year 1962-63—the next year—no such request, as I mentioned earlier, was in fact made to the department of

insurance for such an estimate. So that these are as close as they can come. They are only estimates, but they are in the habit of asking the department of insurance to determine how much liability would in fact have been provided.

Mr. FRANCIS: I wondered whether it was significant that no request was made.

Mr. WINCH: Mr. Chairman, with your consent and that of the members I have something to say. I may have to go a little bit slowly because I do want to get this right. The Auditor General has raised a most important matter before this committee. The importance of it is shown by the fact that in the 1962 report he has paragraphs 62, 144, 145, and in his 1963 report he has paragraphs 123, 124 and 125 on this subject. After listening to the Auditor General and to Mr. Bryce I not only recognize the importance of this matter, but also its complications and confusions. I will proceed slowly so as to try to present the problem as I see it and to present the questions which I would like to ask.

If my memory is correct, all superannuation payments or policies are governed by acts of the parliament of Canada. We have a number. However, in those various acts of the parliament of Canada the payments to be made by a servant of the crown and also the payments to be made by the crown itself are outlined in specifics. Now, if my interpretation is correct, what is binding on the servant of the crown is also binding on the crown itself. Again, if my interpretation is correct, then an increase in salary to a servant of the crown immediately affects his payments on superannuation. There I come to my first point, that as a servant of the crown is immediately caught under the act on payment, then on what basis is the crown itself not under an obligation to meet whatever might be its matching payments?

Mr. BRYCE: Could I answer that right away?

Mr. WINCH: Could I build it up before? On what basis is a servant of the crown obligated, while a decision of a minister or someone else can defer payments by the crown? I want to draw the entire picture. When it comes to the act itself it is not a question of the validity of the actuarial soundness of the fund because if it is found to be not actuarially sound it is up to the government to come to the House of Commons and ask for additional money or ask to make changes. If I am correct on that,—I am just building it up now—then by deferring payments by the crown for five years we have basically not had a true report to the House of Commons on the position of the obligations of the crown. I base that view on my interpretation of what Mr. Henderson presents in about six paragraphs. What he is pointing out is a backlog which has not been paid by the government as required by the law of Canada on superannuation as between master and servant, if I may use that term. If I am incorrect here, perhaps I will be corrected by Mr. Bryce or by Mr. Henderson. These have not been charged as budgetary expenditures year by year, as they have occurred. I am not an auditor, but to me it seems that we have a most important point here, that the backlog has not been paid for five years and therefore it has not been shown as budgetary expenditures as should have been shown in the reports to the House of Commons.

I then want, if I may, to ask Mr. Bryce to explain something which I find most difficult to understand in view of the fact that he presented it in two different ways which mean the same thing, and that is "pay increases of general application, not necessarily a salary increase for superannuation purposes". This is something which passes all comprehension. You can just take one example. If you were a member of the House of Commons up until last year—as I was for the last 10 years—you would know that we paid \$240 a year to superannuation. A change in the act made it \$720 a year. Immediately the act went into force a deduction was made from our salaries on the basis of one twelfth of \$720, and inside of six weeks we got letters that we had to make

a choice on whether we were going to pay up on the past. Do I gather that the government perhaps did not immediately, when we had to pay the one twelfth of \$720 and not one twelfth of \$240, match our contribution? Apply that to a servant of the crown. Is he not in exactly the same position? According to what we now have in front of us, I gather that for five years the government, to some extent, has not matched what the law demands and what the crown is obligated to pay. What should have been charged to budgetary expenditures was not shown.

We then go on to what I also admit is something that puzzles me immensely, and that is the statement about writing off a net debt of moneys owing to superannuation. How can you change the public accounts of Canada to write off as a net debt—and this is the way I got, and I think I got it right—moneys owing superannuation? If it is a debt which is owing to the superannuation fund, how can it be written off as a debt? There may be a complication of auditing and high financing there that I do not understand, and it might help me an awful lot if I could learn more about it.

To go back to Mr. Henderson's statement—I will come to a conclusion very soon—

The CHAIRMAN: Mr. Bryce might deal with all those questions as one item.

Mr. WINCH: I have just one more point. Mr. Henderson said that no contributions were made, and he specifically mentioned 1961 and 1962. He said that it is required in the act under section 32, I think. Therefore, the Auditor General has drawn to our attention the fact that the act of parliament under section 32 requires payments. The payments were not made. We have Mr. Bryce's statement that payments amounting to hundreds of millions of dollars were not made. We have the statement of certain things that are going to be written off as a net debt. We have the statement that the servants of the crown have to pay immediately but that the crown does not. We also have the statement, which I would like cleared up, that the basis of the fund, whether actuarially sound or not, is not the subject now before us, nor under the authority of the minister. The law says that you have to pay so much money every year on the various superannuation acts. It has not been paid. When it comes to actuarial soundness, then it is up to parliament to meet the deficit or change the act.

I do not know whether I compounded the confusion or not, but I hope I have given enough to you so that you understand the kind of information which I think this committee would like to have on the reasons why the crown thinks it can disregard the law but everyone else has to obey it.

Mr. BRYCE: I think Mr. Winch has put the case very eloquently. My only worry is whether I can remember all the subpoints that he has raised.

Firstly, I think we should start by recalling that the employee does not suffer by any delay that there may be in the crown making these payments or charges because of deficiencies created by pay increases. The employee's rights are defined in the act. The crown is obligated to pay the employee's pensions and benefits when he is entitled to them. He can sue the crown for them, as I recall. Therefore we are not talking about anything here that endangers the employee's position. The essence of the argument is whether we are properly disclosing the liabilities that are created by the employees' service in earning pensions, and whether these are being charged to expenditures in a proper way.

Secondly, we have the point on what the law requires the government as an employer to contribute. If we take the Public Service Superannuation Act itself, it says that there shall be credited to the superannuation account in each fiscal year, first, an amount representing interest on the balance to the credit of the account.

The CHAIRMAN: That whole section is quoted at page 78 of the 1962 report. Section 32 is quoted verbatim, if members are interested.

Mr. WINCH: I read it very carefully.

Mr. BRYCE: The crown has, of course, been paying the interest from year to year without any question.

The second thing is—

Mr. WINCH: I am sorry. Has the crown been paying the interest on the money it has not paid?

Mr. BRYCE: It pays the interest on the balance from time to time to the credit of the superannuation account.

Mr. WINCH: But not interest on the five years of money which it should have turned into the superannuation account.

Mr. BRYCE: They have only paid interest on what is shown as the liability in the account from year to year. As you will see on page 169 in the 1963 report, what they pay is the amount which is included on the liability side under item 16, annuity, insurance and pension accounts, schedule N. Unfortunately it is not reprinted here, but in the public accounts themselves we will find that in schedule N.

Mr. WINCH: What rate of interest does it pay on its liabilities?

Mr. BRYCE: Four per cent. This is determined by regulations made by the governor in council. It is the amount shown as a liability on the liabilities side which determines what interest we pay. That is in the public accounts, volume 1, at page 167 under the Department of Finance public service superannuation account. That shows the amount we recognize as a liability and on which we pay the interest.

The government is also required to pay matching contributions to the employees' contributions. The government is required to pay an amount matching the total amount estimated by the minister to have been paid into the said account during the preceding fiscal year by way of contributions in respect of current service other than current service with any public service corporation or other corporation as defined. In other words, we match our employees' contribution, but match it the following year when the total can be determined and then put in a bulk amount.

Mr. WINCH: But you have not been matching it.

Mr. BRYCE: We match it in the way the law says we shall match it. We total up what the employees' pay in one year and put in an amount the next year equal to that. Perhaps Mr. Clark could tell us why it has a lag of one year.

Mr. H. D. CLARK (*Director, Pension and Social Insurance Section, Department of Finance*): Originally it was a matter of totalling up at the end of the year to find out what the contribution by the employees came to and simply matching it then.

Mr. WINCH: I am awfully sorry; I do not wish to interrupt, but I cannot tie that in with what is declared to be a five year lag.

Mr. BRYCE: I am coming to that. These are all employer's contributions as such; these are the things that the boss pays, just like the employee. These are under item (b) here.

Thirdly, the government is required to pay such amount in relation to the total amount paid into the said account during the preceding fiscal year by way of contributions in respect of past service as is determined by the minister. In other words, there are very complicated provisions in the law about employees paying for or being credited with past service. We have to determine under these complicated provisions of the law how much the government has to contribute for prior service. In some cases of war service, the employee does not pay but the government does.

Mr. CLARK: In certain types of war service.

Mr. BRYCE: That is the third thing. In all this kind of contributions there has been no question of the government paying up when the law requires it.

The question really has arisen in respect of subsection 2 of section 32 which Mr. Henderson has quoted in the paragraph concerning these contributions. Here you get into this question of whether salary increases are increases of general application, and whether the contributions are being paid as soon as possible following. Well, the preceding government took the view that these cyclical increases were not salary increases of general application. We know the facts. They have taken this view and have received advice with regard to what the law really requires. Therefore, they feel they do not have to put these in. I cannot tell you any more. I am not a lawyer and I cannot get into the fine points of what the words "salary increase of general application" mean, or whether there are any court cases which would give a guide in respect of how general they have to be to come within that.

However, I think this is what is worrying you, Mr. Winch; that is, did the government meet this test of putting in an amount to provide for the increase in cost to Her Majesty that would arise as a result of such salary increases.

Mr. WINCH: It is a key point. What I cannot understand is that it is a cyclical increase, but is an increase in salary and the employee has to pay superannuation on any salary increase, so where does the interpretation of the government come in to the effect that it is not a salary?

Mr. BRYCE: When the pay of a civil servant is increased he has to pay a $6\frac{1}{2}$ per cent contribution on the increase in pay; the government matches that. However, over and above what the government pays in matching its employees' contribution, we know when we increase salaries the government's matching contribution is not enough to look after the actuarial liability created in respect of future years. It is this increase in actuarial liability which is at issue here under section 32 (2). It was only ten or 12 years ago that the law came into effect which required that this be taken into account. Previously it was not there at all.

As I recall it, there is nothing in the law which requires us to put in an amount to cover a deficiency shown up in the actuarial reports.

Mr. McMILLAN: Why would it not be enough if the government met their whole obligation?

Mr. BRYCE: It is because of the nature of the fund. The employees contribute a certain percentage year by year up to 35 years. If the salary rates always remain the same for various classes of work, the rate contributed by the employee and matched by the government, as the employer's contribution, would, I suppose, roughly work out as being enough when interest is taken into account.

Mr. McMILLAN: You said it would not be enough.

Mr. BRYCE: Yes, if salary rates are level; but if salary rates are rising in the employees lifetime which, fortunately, is what happens as the country becomes better off and can afford more, when the employees' payments are based on his whole lifetime of contribution, and his pension is based on the six best years, or normally the last six years at higher rates of salary, then the year by year contributions, in practice are not enough. We know that it depends on the rate at which salaries are rising. That is why this provision was put in the act in 1951 in order to attempt to keep that deficiency from accumulating. I think that is the essence of the point. It is this, as Mr. Winch points out, which has been allowed to accumulate for some years.

Mr. WINCH: What would be the actual amount?

Mr. BRYCE: The actuaries are going to tell us that, I hope, within a matter of days. I have not received the report which Mr. Henderson mentioned, but I

believe it is due this week. I do not know how much it will be, but it is their job to tell us what it was as of December 31, 1962. Now, as I said a moment ago, there is nothing in the law that obligates us to put in the end any deficiencies that the actuaries find in their quinquennial valuation. However, the purpose of the valuation is to find whether we are in fact falling behind. With proper credits being made because of pay increases we should not fall too far behind. In future, therefore, under the plan the minister has outlined, the amounts arising out of the quinquennial valuation should not be large amounts; they should be "tidying up" amounts rather than "making up" amounts, so to speak. The amounts to be settled in respect of the past period are much larger, as was evident in the amount for the armed services and as may well be the case for the public service superannuation account, because of the fact that the pay increases were not considered to be of general application, and therefore we did not fill in the hole created by those pay increases. So that I think this has some bearing on the point Mr. Henderson made about the initiation of this thing without charging over the next five years what the actuaries find to be the deficiency at the end of 1962. The deficiency at that date is, to a considerable extent, a reflection of the fact that the pay increases were not found to be of general application and therefore gave rise to more cumulative deficiencies than would be the case in future when we are going to deal with them systematically, whether or not they are of general application.

Mr. WINCH: Could I ask Mr. Henderson whether, in view of what Mr. Bryce has said, he is satisfied with what I gather to be the future policy of the department, that there will not again be a large backlog and that we will see each year a budgetary expenditure of the moneys required.

Mr. HENDERSON: I would certainly hope so, Mr. Winch. Section 32, subsection (1) of the Public Service Superannuation Act, which Mr. Bryce has been describing to you and which you have before you, seems to me to be quite understandable and normal. It requires, as he has explained, special provisions to be made in this account or fund whenever the salary and wage increases of general application are given to the public service employees covered by the fund.

Mr. WINCH: That is annual, is it not?

Mr. HENDERSON: Yes, annual increases of general application. You find a similar sort of provision usually present in most big corporation superannuation funds for the purpose of keeping the funds actuarially sound. Then, as Mr. Bryce has described, you employ actuaries usually at five year intervals, sometimes at three year intervals, to recheck the status of the funds so as to see how the fund is doing. These actuaries have regard to the prevailing rates of earnings on the fund's investments, the pattern of the age group of employees covered, and the salary levels currently being paid, on which, as Mr. Bryce has said, the pensions or superannuation are going to have to be based at the end of the road.

In direct answer to your question, the procedure Mr. Bryce has outlined—and this I think is very important—recognizes the principle of keeping the fund actuarially sound. But instead of making provision in the fund each year in future for the salary and wage increases granted in that year—that is each year by itself—he says that since there is going to be a pattern of cyclical salary increases throughout the public service in future, he proposes to distribute the charges over the ensuing five years. Thus, he believes, as he says, that a more or less standard charge will enter into budgetary expenditures each year, arriving at the same result. I think you can appreciate that theoretically this may be quite true; however, in my view, as I said to you, it would be better and cleaner and simpler accounting were the appropriate amount in respect of salary and wage increases during each year to be placed into the fund in that year and charged

off, just like the salaries and wages themselves, to budgetary expenditures. To my way of thinking this gives immediate recognition within each fiscal year to the real cost of salary and wage increases.

Mr. WINCH: Have you discussed this with the department?

Mr. HENDERSON: Yes, we have had the exchanges to which I referred, and Mr. Bryce has been good enough to set down his thinking on the five year pattern which the minister announced on March 6 he proposes to adopt. Obviously, as I said earlier, if you are going to be taking one fifth of the five years, the thing will level itself out and you will wind up with the same result. I naturally asked the question: why not start out doing it the simpler way, because these are expensive costs which go right along with the salaries and wages paid, and you might be up one year and down the next year. This may not give you a nice and even line, but if you are trying to ascertain real costs, there is an argument for it. That would make it simpler, but, on the other hand, it is Mr. Bryce's prerogative, not mine, to adopt the procedure that he feels will best tie in with his departmental approach. I am only pointing out the way I see it because that was what you asked me.

Mr. WINCH: I have one more question and then I will subside. I am sorry I have taken so much of your time. Could I ask Mr. Henderson whether, from your point of view as the Auditor General of Canada, responsible to parliament, wanting to present to parliament every year the revenue and expenditure, it is your opinion that it would be better if there could be at least an approximate annual budgetary estimate submitted to parliament?

Mr. HENDERSON: If it were written off as a budgetary expenditure each year?

Mr. WINCH: So that we would know what it required. At the end of the five year period we would know the approximate figure for every year.

Mr. HENDERSON: Mr. Bryce's proposal would include a charge each year. He might want to expand on that.

Mr. WINCH: An additional charge of one fifth to catch up on the last five years.

Mr. BRYCE: I hate to point out that it is a little more complicated than that. We propose to show every year in our liabilities the full amount of that increase in liabilities that arises from the pay increase in that year.

Mr. WINCH: You do not intend to pay it?

Mr. BRYCE: We do not intend to pay this at once. In our liabilities we propose to show, whenever we get an actuarial valuation, the increase in liabilities arising from that valuation. We show that in our liabilities, and pay interest on that right away so there would be no accumulation of deficiencies. However, we propose to charge the increase in those liabilities to expenditure over the ensuing five years, as Mr. Henderson said. So I think the only difference between us and the Auditor General is not in what we show as a liability, not in what we pay interest on, but rather on when we charge it through to our budgetary expenditures. We feel that charging it over five years gives not only a smoother picture but, I would suggest—although I hesitate to say this to an eminent accountant like Mr. Henderson—in some ways it is a better way to reflect the charge because in fact the higher pension liabilities are contingent upon the employees continuing their service and continuing to serve, and in fact it is not all a cost that accrues immediately we make the pay increase; it accrues as the employees continue to serve. You might well argue that it should be amortized over the future service life of each employee, and in fact I think the practice of private employers with plans like this is to spread the cost arising from pay increases over even more than five years. However, we have simply been taking five years as giving us enough reflection

of the fact that it is future service that really creates the increase in the liability. So I do not think there is really much difference between Mr. Henderson and myself in this.

Mr. HENDERSON: A most important point, I think is something which I would like to say to the members of the committee, namely, that a plan has now been evolved to write this off to budgetary expenditure in an orderly manner. It may not be the way that I think would be the simplest one, but at least we have a plan, and provided that that plan is adhered to, I would hope that this situation will tidy itself up.

I would like to ask Mr. Long if he has any comment he would like to add to this. This is a subject to which we have given a lot of thought and he might have a few words to say on it.

Mr. G. R. LONG (*Acting Assistant Auditor General, Auditor General's Office*): One thing I might mention is that when these comments were made by the Auditor General the law called for payments into the fund with respect to salary increases of general application. Over a four year period, the entire service was covered, but nothing was put in.

Mr. WINCH: Nothing was put in?

Mr. LONG: That is right, nothing was paid into the fund to cover the cyclical increases granted over a four year period, but over this four year period there were increases for the entire service. Mr. Bryce is proposing that the law should be changed so that you do not have to reimburse the fund all at one time, you reimburse it over a five year period. Of course, if parliament changes the law in that way, we would not be able to say anything about it as long as the department adhered to the new law.

Mr. WINCH: That is the point I was hoping to get out eventually, and now I have got it. You said that according to the existing law for the past four years the law has not been lived up to, but it requires a change in the law to do what you have been doing for the last four years. Am I right?

Mr. BRYCE: Are you asking me?

Mr. WINCH: I am trying to ask the Auditor General or Mr. Long. I want to go along with what was just said. Did I interpret you correctly, that according to the existing law there should have been money paid in that has not been paid in, but that if the law is changed, then it will overcome the difficulties which faced you, Mr. Long, and the Auditor General? Have I made a correct interpretation?

Mr. LONG: This is right, but I would go on to explain that the Minister of Finance interpreted "general application" as being over the entire service in one year. Obviously when salaries are reviewed on a cyclical basis that interpretation rendered this section of the act completely ineffective, and we do not think that parliament intended this section to be rendered ineffective in that way.

Mr. WINCH: May I say that I appreciate your kindness and that of the other witnesses in giving us that information. I wish I had more knowledge of finance and auditing, but I have a far clearer understanding now than I did half an hour ago.

The CHAIRMAN: Have you still got a question, Dr. McMillan?

Mr. McMILLAN: There were two or three things I did not understand. You have been referring to deficiencies resulting because of contributions not made in respect of several increases. Then Mr. Henderson said that at another time no contributions were made. Does he mean that no contributions were made in respect of salary increases, or none at all?

Mr. HENDERSON: No contributions have been made. I first started reporting this business in 1961, and I was reporting then for the year 1960-61. Then I reported for the two succeeding years. The amount of the liabilities that should have been put in under section 32 were determined but they were not charged to the budgetary expenditures, neither were they put in to the superannuation fund for the three years since. As you see, it is a very formidable figure. It was about \$161 million alone in the year 1961. What it has been since, I do not know because nobody has computed it.

Mr. McMILLAN: In fact, nothing was put in, in respect of basic salaries that they were getting before?

Mr. HENDERSON: No, this should have been charged to budgetary expenditure.

Mr. McMILLAN: Of course, it should have been taken into the budget and written off as a debt at that time?

Mr. HENDERSON: That is correct.

Mr. HALES: I do not think we should spend any more time on this. Apparently the department and the Auditor General have come to an agreement that seems to be suitable to both. I should like to ask Mr. Henderson what the outcome would have been had this been a private corporation or a firm with some authorized pension plan which the inspector of insurance was supervising or looking after?

Mr. HENDERSON: As far as the inspector of insurance is concerned, and I hope Mr. Bryce and his associate Mr. Clark will correct me if I am wrong, I do not believe he is interested in private pension plans of large corporations. There are no rules applicable thereto. Private corporations faced with a problem like this would seek to write this off just as soon as they could, always providing they could get it for tax purposes. The tax department have established rules regarding what it will allow, and they are quite generous. The private corporation seeks to get this sort of thing written off to the greatest extent the tax position permits. That has been my experience.

The CHAIRMAN: Will you speak into the microphone, Mr. Hales?

Mr. HALES: Would you not think this a good policy to follow in your department, writing it off each year?

Mr. BRYCE: No, sir. We think it would be better to reflect it in our liabilities each year, in view of what we know about the liabilities created by increases as well as by evaluations, and to charge that increase in liabilities over a five year period rather than in one year for the reasons I have outlined essentially here, to make sure this is a smoother curve, and also because it is accrued over future services rather than at the immediate time.

Mr. WINCH: The amount involved now is approximately \$400 million?

Mr. BRYCE: This actuarial report I presume will be tabled shortly in the House of Commons so you will be able to see what they estimate the amount to be.

Mr. SOUTHAM: I think Mr. Hales referred to a particularly salient feature here which I think we sometimes confuse. As a result of his question and the answer given by Mr. Henderson I think the difficulty has been clarified. It related to the academic or auditing practice as far as private corporations are concerned compared to government practice. The thought came to my mind, as Mr Bryce has outlined it, that because of the fact we as the government have a national resource in perpetuity, we can take a more flexible plan and apply these things to liabilities. I think this is one thing we try to think of in terms of a private individual, or as a private corporation immediately writing these things off for tax purposes, whereas the government does not have to take this attitude.

Mr. BRYCE: I think we should be cautious about what private enterprise does. I am not certain, but as I recall the Glassco commission report, it suggested we should write off this deficiency over 20 years; is that not right?

Mr. HENDERSON: I just do not recall the specific recommendation.

Mr. CLARK: It certainly recommended that it be written off over a greater period than five years.

Mr. HENDERSON: Of course, there are very substantial figures involved, and to write off an expenditure of the size this is now would be a most unattractive project.

Mr. SOUTHAM: I see.

Mr. HENDERSON: That is why it is being written off to net debt, Mr. Southam.

Mr. SOUTHAM: I think perhaps the Minister of Finance in attempting to develop a budget to present to Canada would not want to be saddled with this large amount in one year. I think the period of time approach is possibly the better, but I can see a difference in the opinion here between the private sector and the government sector.

Mr. HENDERSON: Perhaps I could just answer Mr. Southam on that point, Mr. Chairman.

By delaying the write off, and taking it over a five year period, as Mr. Bryce mentioned, he also pointed out that this deferred charge is carried as an asset on the statement of assets and this will of course continue, and will increase the liability and put it into this unamortized figure that appears as a deferred charge on the balance sheet, and there it will stay while one fifth is being written off over the ensuing five years. Under the preference I expressed, it would be written off each year and there would not be a deferred charge.

Mr. WINCH: In other words, you would have this \$150 million figure, such as you had in the years 1961-62?

Mr. HENDERSON: It was 1960-1961, Mr. Winch.

Mr. WINCH: There was nothing paid for each year since, so instead of having written off \$150 million a year we now have approximately \$500 billions left; is that right?

Mr. HENDERSON: This, of course, is going to be cleared off to net debt in order to get this off the ground, and that is probably the best way of handling a figure of that size.

Mr. CAMERON (*High Park*): Mr. Chairman, I intended to ask Mr. Bryce or Mr. Henderson whether there was a written legal opinion from the Department of Justice regarding the amount taken by the Minister of Finance in accomplishing this.

Mr. BRYCE: Are you referring to the salary increases not being treated as of general application?

Mr. CAMERON (*High Park*): Yes.

Mr. BRYCE: I am told there was a written legal opinion. I do not think I have it with me, but perhaps I have. I do not have it with me.

Mr. CAMERON (*High Park*): Do you think you could obtain that written report for us?

Mr. WINCH: You are not worried about owing the superannuation fund this amount of money; is that right?

Mr. BRYCE: I understand the committee discussed the question of legal opinions and how they should be treated at an earlier meeting. Of course, if the committee thinks it right that we should produce this legal opinion I will produce it.

The CHAIRMAN: I suppose Mr. Cameron we are in the same position we would be in the House of Commons in respect of a request for a legal opinion.

Mr. CAMERON (*High Park*): I am satisfied, knowing what you are going to say, with what you are going to say and I know we cannot have these opinions produced. I wanted to find out whether there was a legal opinion obtained.

The result is that there has been accumulated as deferred liability by the crown in respect of the superannuation fund a large amount of money, and if this rule of law had not been applied that would have been charged directly in each year and naturally increased the budget deficit in each of those years; is that right?

Mr. BRYCE: That is right, or it would have increased taxes.

The CHAIRMAN: It may have increased taxes also.

Mr. CAMERON (*High Park*): The result would have been outgoing rather than incoming and, furthermore in writing it off over this desired period each year, as you are now writing it off, you are going to include an amount of these arrears so that the result in coming years will not actually reflect the direct financial picture of the cost because of the inclusion of that which belongs to prior years; is that right?

Mr. BRYCE: Mr. Gordon does not propose to write off the back arrears prior to April, 1963.

Mr. CAMERON (*High Park*): He is going to commence writing them off as a schedule?

Mr. BRYCE: Yes.

Mr. CAMERON (*High Park*): He is going to include this amount and, therefore an amount covering accruing deficits; is that right?

Mr. BRYCE: Yes.

Mr. WINCH: This situation gives rise to a very interesting question. If the government borrows money at three per cent, or round three and three quarters per cent and this amount of money is being paid off each year and the government has to borrow money to do that, we will then have to pay four per cent on this amount of money in respect of the superannuation fund; is that right?

Mr. BRYCE: Yes.

The CHAIRMAN: Gentlemen, we have dealt with the two largest problems with which we are concerned. We still have a number of smaller items, quite a few of which have an impact and impinge on the question of superannuation. Is it the wish of the committee to remain for a short period of time to see how many of these items we can clear up before adjourning until this evening?

Mr. WINCH: Let us remain for at least 30 minutes.

The CHAIRMAN: Perhaps we could remain to see how many of these items we can clear up.

Mr. Henderson, will you now carry on?

Mr. HENDERSON: I should like to ask Mr. Bryce whether it might be better to continue our consideration of the superannuation items while they are fresh in our minds.

The CHAIRMAN: That is exactly what I meant to do, Mr. Henderson.

Mr. HENDERSON: We can then return to the others.

The CHAIRMAN: I think we should carry on with paragraphs 144, 145, 62 and 63.

Mr. HENDERSON: Perhaps we can now turn to paragraph 63 of my 1962 report and paragraph 53 of my 1963 report dealing with errors in public service superannuation account pension and contribution calculations, as follows:

63. *Errors in public service superannuation account pension and contribution calculations.* Reference is made to the comments on this subject contained in paragraph 61 of last year's report. Since then, further meetings have been held with officers of the Department of Finance to consider what steps should be taken to secure a greater measure of internal control.

Our test examinations of the records of the superannuation branch for the year ended March 31, 1962 continued to disclose a high incidence of error, involving both overpayments and underpayments of pension on a continuing basis, and also incorrect charges for contributory service. As was pointed out in last year's report, many such errors could be avoided were there a complete review or internal audit of the contributors' files prior to authorization of the payment of benefits.

The administrative directive issued several years ago and quoted in last year's report, provided that once the superannuation branch had determined the extent and cost of elective service in the case of an election made prior to January 1, 1954, the case for administrative purposes was to be considered closed unless any contributor or his employing agency reopened the case, in which event the relevant laws were to be applied. It was intended that there would be a complete verification of elective service cases by the superannuation branch where the election had been made subsequent to January 1, 1954, and that, in the meantime, all such cases would be checked as usual at retirement. However, in February 1958 this program was abandoned.

Although the practice of making a final check of elective service, prior to authorization of the payment of benefits, was resumed in April 1962, the operations of the superannuation branch continue to give cause for concern. We were informed by the secretary of the treasury board in May 1962 that consideration was being given to the re-establishment of the comptroller of the treasury's pre-audit which had been discontinued in 1958, but we have not yet been informed of any decision in the matter.

53. *Errors in Public Service Superannuation Account pension and contribution calculations.* In the 1961 report (paragraph 61) and again last year (paragraph 63) we reported that our test examinations of the records of the superannuation branch of the Department of Finance had disclosed a high incidence of error, involving both overpayments and underpayments of pension on a continuing basis, and also incorrect charges for contributory service. It was pointed out in both reports that many such errors could be avoided were there a complete review or internal audit of the contributors' files prior to authorization of the payment of benefits.

In last year's report it was stated that we had been informed by the secretary of the treasury board in May 1962 that consideration was being given to the re-establishment of the comptroller of the treasury's pre-audit of superannuation accounts which had been discontinued in 1958. This has not yet been done although various steps were taken by the Department of Finance to improve the superannuation administration, and an improvement was, in fact, noted in the accounts during the year under review. However, pension payments under the Public Service Superannuation Act, unlike those made under the Canadian Forces Superannuation Act, the Royal Canadian Mounted Police Act and the Pension Act, are made without verification by the comptroller of the treasury

of the gross amount of any entitlement, other than a return of contributions.

During the year it was found that information concerning salary payments by crown corporations whose employees are contributors under the Public Service Superannuation Act was no longer being received in the central pay office, having been replaced by a listing of salary rates being paid as at the end of each year. In June 1962 we inquired of the superannuation branch as to what verification was being made of the correctness of the employees' contributions which these Crown corporations were sending in. In August 1962 we received a reply conceding that there existed a gap which should be closed and indicating that a solution to the problem would be worked out. In reply to a follow-up inquiry in October 1963, we were advised that no verification of these contributions was yet being made.

This matter was raised by me in my 1962 report and members of the committee may recall that it was discussed at some length with Mr. Bryce when he appeared before this committee on December 6, 1963. He outlined the problems with which the Department of Finance was faced in the administration of the superannuation act, stating that the minister had decided on his recommendation that the superannuation branch should be transferred from the general direction of the secretary of the treasury board to the general direction of the comptroller of the treasury who was more familiar with this type of large clerical operation and that he and the minister hoped that it would now be possible to apply to it the kind of techniques of pre-audit, checking and correction of records that the superannuation branch operations require. Consequently, he hoped that real progress would be made in dealing with the situation to which I called attention.

In this committee's fourth report, 1963, tabled in the House of Commons on December 19, 1963, it expressed concern that a high incidence of error had continued in the superannuation branch of the Department of Finance involving both overpayments and underpayments of pension on a continuing basis and also incorrect charges for contributory service and requested the Auditor General to keep parliament informed regarding the progress being made.

When we discussed this on May 26, I advised the committee that I intended to keep parliament informed on the progress being made in remedying this situation. As little time has elapsed since Mr. Bryce introduced the changes I have just mentioned, I would have no further comments to make at this stage, unless Mr. Bryce has something he would like to say to the committee on the progress that he is making.

Mr. BRYCE: Mr. Chairman, action has been taken to deal with the situation that was discussed last December. I have not brought along a detailed report in this regard but if the committee would like to have a report I suggest that Mr. Balls, the comptroller of the treasury, might report at a suitable time in respect of measures that he has put in hand to deal with this situation. I think the committee will find that they are going ahead and that they will be effective. I think that it would be best on the whole for the committee to leave this and consider it when the accounts for this current year are before the committee.

Mr. CAMERON (*High Park*): Can you not make any general observation regarding improvements that are going to take place? This seems to be quite a serious problem.

Mr. BRYCE: It is a serious matter.

Mr. CAMERON (*High Park*): I think the members of this committee should like to know that it has been corrected.

Mr. BRYCE: The situation is being corrected but it takes time to correct this sort of thing. I think it was evident during discussions last December that what

is required is trained staff who can handle all these very complicated calculations and handle them accurately, with a suitable internal audit to see that they have been handled accurately.

Mr. CAMERON (*High Park*): Is not one of the key points that Mr. Henderson referred to the fact that instead of having specific figures of contributions made by each pensioner all you have is something based on his salary rate which may not actually correspond with what he is actually contributing? Does that not represent one of the important factors?

Mr. BRYCE: I hesitate to speak in this regard from memory.

Mr. CLARK: Certainly there are often errors made both in respect of contributions and salaries, but it is ultimately salary that involves the important portion.

Mr. CAMERON (*High Park*): I think the situation is due largely to an improper accounting system and I should like to know that a proper accounting system is not only being considered but actually in operation.

Mr. BRYCE: Mr. Balls is revising it. It is really a record keeping system which is at issue, and this is being revised and included to satisfy the internal audit system which is being applied.

Mr. CAMERON (*High Park*): Why then do we have to wait until next year in order to find about what is going on now?

Mr. BRYCE: If you wish, I am sure Mr. Balls will be glad to come along at a subsequent meeting and explain it to you.

The CHAIRMAN: We can discuss this later before the fall. Mr. Bryce said last year that steps were being taken to start with, and we may hear Mr. Balls on this matter later.

Mr. HALES: There is a notation here that the salary payments are made by crown corporation employees who are in the superannuation fund, but there has not been a list of their payments at the central office. Has this been corrected as of this date?

Mr. BRYCE: I am sorry. I should know the answer to that, but I do not. I am sorry that I cannot tell you.

Mr. McMILLAN: Did contributions from crown corporations go into this fund during the years when they said nothing went in from the government?

Mr. BRYCE: The crown corporations are not required to make contributions of the nature we were discussing. Theirs are matching contributions but not contributions to meet actuarial deficiencies.

Mr. HENDERSON: Mr. Long may have something to add.

Mr. LONG: I was trying to follow Mr. Hale's question. I am not sure I have the two questions. Some crown corporations are covered by the superannuation fund and they do make contributions to the fund.

Mr. McMILLAN: Did they make contributions to this particular fund in these particular years?

Mr. LONG: Oh, yes. I think the problem was whether anything was being done to check the reports made by the crown corporations to the superannuation branch. I have not got this from the superannuation branch, but we do audit the crown corporations, and I heard from one of the financial officers that the superannuation branch had asked for quite a lot of information going back over the past three years. I think this would indicate that the matter has been taken in hand by the superannuations' branch.

The CHAIRMAN: Might we go on to the next item now dealing with super-annuations?

Mr. HENDERSON: I now refer to paragraph 54 of my 1963 report.

The CHAIRMAN: Now paragraph 54:

54. *Public Service Superannuation Act—questionable decisions.* Three instances were noted in which evidence of doubtful value was accepted as the basis for administrative decisions. In one of these instances there was a resulting reduction of \$4,800 in the cost of elective service to a contributor who had retired. In the two other instances contributors were able to elect to pay for service on the basis of the rate of salary received on first appointment to the public service after world war II and the rate of contributions then in effect, rather than on the basis of current rates of salary and contributions—the difference in the cost of the service amounting in one case to \$11,200 and in the other to \$8,600. This was made possible by an amendment to the Public Service Superannuation Act in 1960 and an amendment to the regulations in 1961. The amendment to the act reads as follows:

30. (7) The governor in council may make regulations prescribing, in the case of a contributor who in the opinion of the Minister was one of a class of persons who, pursuant to erroneous advice received by one or more persons of that class, from a person in the public service whose ordinary duties included the giving of advice as to the counting of service under this act or the Superannuation Act, that a period of service of such a person before the time he became a contributor thereunder could not be counted by him under the said act, failed to elect under the said act within the time prescribed therefor to pay for that service, the circumstances under which and the manner and time in which the contributor may elect to pay for that service, and the circumstances under which and the terms and conditions (including conditions as to interest) upon which any such election made by him to pay for that service, or any election made by him under paragraph (b) of subsection (1) of section 5 to pay for that service as a period of service described in clause (F) of sub-paragraph (iii) of that paragraph, shall be deemed to have been made by him under this act or the Superannuation Act, as the case may be, within the time prescribed therefore by the said act.

The three contributors (who were considered as constituting a "class") had not elected, on permanent appointment to the public service during the years 1949 to 1952, to pay for war service, and claims subsequently that they had been misinformed as to their eligibility to elect. It could not be substantiated from departmental records that erroneous information had, in fact, been given in these cases. The superannuation branch accepted a departmental officer's affidavit, taken in 1961, to the effect that he "likely" gave incorrect information to one of the contributors in 1950. A personal affidavit was accepted from one of the others and the third contributor was included in the "class" because, in previous correspondence, he had made the statement that he was ineligible to elect.

Another case is that of a contributor to the superannuation account who ceased active duty on September 30, 1959 and who was certified by the Department of National Health and Welfare in May 1960 as being permanently disabled. Pending the result of an attempt to have the contributor's wife appointed administrator of his affairs, action was not immediately taken to commence payment of an annuity under the provisions of the Public Service Superannuation Act. On August 1, 1961 the superannuation branch received a notice of termination of employment, effective July 5, 1960, which stated that retiring leave had been granted from June 1 to July 5, 1960. The treasury board, on October 3,

having been informed that the contributor had entered hospital for domiciliary care on June 1, 1960 and had become entitled to an annuity when he retired from the public service on July 5, 1960, designated the wife as recipient of the annuity payable to her husband. In April 1962 the superannuation branch accepted a second notice of termination of employment which showed the date of termination as July 15, 1960 (one day after the coming into force of an amendment to the Public Service Superannuation Act which provides automatic continuation of death benefit coverage and for the calculation of annuities on the basis of a six-year rather than a ten-year average salary). As a result, death benefit coverage of \$3,750 was reinstated and the annuitant's pension was recalculated and increased by \$175 per annum.

Mr. HENDERSON: This comment in my 1963 report on page 27 was left until Mr. Bryce could attend the committee.

As you will see from this note, the regulations surrounding the administration of the Public Service Superannuation Act are, to say the least, very involved, and we were concerned in noting these three instances in which evidence of doubtful value was accepted as the basis for administrative decisions. In one of these cases there was a resulting reduction of \$4,800 in the cost of elective service to a contributor who had retired, while in the other two instances contributors were able to elect to pay for service on the basis of the rate of salary received on first appointment to the public service after world war II and the rate of contributions then in effect, rather than on the basis of current rates of salary and contributions, with the result that there was a difference in the cost of the service of \$11,200 in one case and in the other of \$8,600. I deal with a further case in the last paragraph of this note on page 28.

These regulations are extraordinarily involved and I am sure that members will appreciate the importance of their administration. I discussed these cases with Mr. Bryce and he may have something he would like to add to them.

Mr. BRYCE: As is evident here, in 1960, parliament approved the principle of what was done here when they authorized an amendment to the act. Parliament leaves it to the opinion of the minister whether the person is one of a class who received erroneous advice and therefore can take advantages of what is provided here. The minister must use officials to try to determine whether in fact such people did receive erroneous advice. As you can imagine, it is not easy to get conclusive evidence of matters of this kind, especially about erroneous advice which was alleged to have been given orally years before when someone consulted a person whose duties included the giving of advice about counting his service under this act. I think the department in dealing with these cases some years ago has done as fair and honest an appraisal of the evidence as can be done from the evidence that is available.

Obviously a substantial amount in relation to the persons concerned hinges on these decisions, and they have tried to take whatever measures were possible to check on whether it can be confirmed that they received erroneous advice or whether it is likely that they might have received erroneous advice. Perhaps the whole thing is in its nature very difficult to ascertain, but since parliament put the provision in the law, then we must do our best to administer it in a fair and honest way, and that is what we have tried to do. Those are the first three cases here. I do not know if there is anything more. I have a few details about the particular claims, but I do not think they are very germane. The problem was that we have to act on whatever evidence can be found, and in some cases this was evidence in the form of affidavits from people about what they did or might have done when giving erroneous advice earlier.

The CHAIRMAN: I suppose under the sanction or provision for making regulations, if you come to the conclusion that there was a tightening of regulations, you may recommend that the regulations be changed to conform to what your experience has been.

Mr. BRYCE: That is right. The governor in council may make regulations prescribing the class. Then the minister has to decide whether the individual falls within that class of people who have received erroneous advice.

The CHAIRMAN: Are there any further questions?

Mr. BRYCE: I am prepared to speak about the other case covered in the final paragraph if you wish me to do so.

The CHAIRMAN: Yes, if you would, please.

Mr. BRYCE: This is a different kind of problem. This is a question of when this poor fellow who became permanently disabled left the service. We have looked into the facts of this case. Perhaps I might read a few sentences to try to give you the facts. Firstly, a termination notice was received by the superannuations branch from the Department of National Defence on August 1, 1961, giving the date of termination of this chap's service as being July 5, 1960. Pension was paid on that basis. Secondly, an amended termination notice was received by the superannuations branch in April, 1962, changing that termination date as the Auditor General suggests here, to July 15, 1960; in other words, ten days later.

However, the superannuations branch did not amend the pension to reflect that date and did not accept the second notice of termination. In fact, from the evidence which it had, it questioned the dates given by the department as to the termination, the one that the Auditor General referred to here. Discussions took place between the superannuations branch and the Department of National Defence and as a result the department issued a third termination notice finally establishing the date of termination of this man's service as being July 21, 1961, that is, practically a year later.

The nature of the evidence they went on in fact was the date of the document in which the Department of National Defence first said that this man was off duty or had ceased to work, and that document was dated July 20, 1961. However it purported to strike him off strength nearly a year earlier, on July 5, 1960. These things reflecting on the termination of the man's salary, or of the man's service, they felt were not done in a legal and proper way. It was within this consideration that the conclusion was reached that effectively he had been removed from service on July 20, 1961.

Mr. WINCH: May I ask one question which must be in the minds of all of us? Could you give us some explanation of how, over a period of one year, a department of government does not know what was the date on which a man stopped his service?

Mr. BRYCE: It is not a case of not knowing who is at work. This poor chap was disabled.

Mr. WINCH: It was done on a humanitarian basis?

Mr. BRYCE: He was disabled and was not working. He was on sick leave without pay.

Mr. WINCH: Following his service being terminated, did something happen after that date when he was on sick leave which brought about his disablement?

Mr. BRYCE: No, I think he became disabled earlier.

Mr. WINCH: Prior to being terminated?

Mr. BRYCE: That is right. He was on sick leave without pay. For the purposes of pay, a thing like that is not important because he was on leave without pay. But a person on sick leave without pay is entitled to contribute to the superannuation fund. So we continued to receive contributions from him. But

when it was necessary to decide at which date he ceased to be on sick leave without pay, and should be regarded as having gone on pension, it was this date that was in dispute. So all the facts are not exactly as the Auditor General determined here, and what it amounted to was that there was a dispute about when he in fact went on sick leave without pay to retirement. It was not a matter of a few days that brought him under the benefits noted below. It was a matter of a whole year or more which elapsed before the department took formal action necessary to strike him off strength.

The CHAIRMAN: Have you any questions, Mr. Cameron?

Mr. CAMERON (*High Park*): I shall waive my questions.

The CHAIRMAN: I think we shall have to come back this evening. I had hoped that we could conclude with Mr. Bryce today. However there are a lot of matters he is still interested in, and I hope we can meet promptly at 8 o'clock. Before you go let me say that we hope to meet tomorrow at 3.30 in camera in order to consider our interim report. The clerk will be sending out notices, and the steering committee will meet at 3 o'clock. However the main committee meeting will be at 3.30 to consider making up our fourth interim report to the house. We shall adjourn now until 8.00 p.m. tonight in the same place and I hope we can get started promptly on time.

EVENING SITTING

TUESDAY, July 21, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. We shall resume where we left off. Before going on with paragraph 55 of the 1963 report Mr. Winch has a point he wishes to raise. We will just deal with it, and then call upon Mr. Henderson.

Mr. WINCH: I appreciate the opportunity of raising this point immediately. It is one which I have never known to come up before, and I feel it should receive some clarification. This committee has to rely to a very great extent upon the report of the Auditor General. It is understandable that there may be challenges of his report on his interpretation, of his views, or of his recommendations. But I think it is rather an astonishing situation, and I have never known it to happen before, when just before we adjourned the deputy minister of finance said "I challenge the figures of the Auditor General." When we have the situation where the Auditor General's figures are challenged, I feel I just cannot let that statement stand the way it was made. I feel, in view of the importance of the principle, we should ask Mr. Bryce to enlarge a little on why he challenges the figures given in the Auditor General's statement, and then perhaps there might be something from Mr. Henderson himself. It is a point of sufficient importance, in my view, that it should be raised.

The CHAIRMAN: I am sure that both Mr. Bryce and Mr. Henderson will comment and enlarge upon the matter.

Mr. BRYCE: What I was thinking of was not the figures, which would be more significant for an auditor, but rather his saying that the superannuation branch accepted the second notice of termination. They received a second notice of termination but they did not accept it. They took it up with the department and got the department to issue a third one. I think it is the word "accepted", which raised the question.

Mr. WINCH: I could have got it wrong, but I thought it was something which was challenged which had to do with figures, or something which had occurred that had to do with them.

Mr. HENDERSON: I do not recollect any figures being questioned, but Mr. Bryce is perfectly correct when he said that he thought there had been a wrong choice of words in the last section of paragraph 54 about questionable decisions

under the Pension Act. I would be pleased to explain this because we looked into the situation after we adjourned this afternoon. My officers and I seek to be as completely accurate as we possibly can in our presentation of the facts in our reports, and I would have to apologize to the committee for the error in this note. I should point out that the error did not materially change the circumstances of the case, because the text of the note here was shown to the Department of Finance for checking of the facts before my report was printed.

With the permission of the committee, I would like to read into the record two small changes which will now make this paragraph factually correct. In the twelfth line the word "accepted" should have been "received", so that the sentence would read "In April, 1962, the superannuation branch received a second notice of termination . . ." Then, as the second last sentence in the paragraph the following should have been included "Subsequently the date of July 21, 1961, was accepted as the date of separation." These changes do not materially alter the facts as originally given. The point to note is that a civil servant who ceased duty in September, 1959, was certified in May, 1960 as being permanently disabled and was granted an annuity with effect from July 6, 1960, which effective date was later changed to July 20, 1961. In the meantime the Public Services Superannuation Act had been amended to provide automatic continuation of death benefit coverage and calculation of the annuity on a six year rather than on a ten year average salary.

Mr. WINCH: I understood that the acceptance meant figures.

The CHAIRMAN: I think this point was one dealing with some figures about which Mr. Henderson had been questioned, and he said they had been obtained through the superannuation branch. I do not think the figures were questioned. I think it was simply a question of where he had obtained the figures.

Mr. HENDERSON: On the figure of \$160,000,000 that was referred to, Dr. McMillan questioned the correctness of those figures, or asked if Mr. Bryce—no, I believe it was Mr. Lloyd Francis—who suggested that my figures might not be correct, or words to that effect, or he questioned Mr. Bryce. I did point out to Mr. Francis that the figures were figures of the Department of Finance itself. In fact they got them, I did not.

The CHAIRMAN: I think the point has been reconciled by Mr. Henderson's statement to Mr. Winch. Let us go on now to paragraphs 55, 56, and 57 in due course, as follows:

55. *Pension increased by payment of two salaries.* In 1951 a legal opinion was given to the effect that where a civil servant on retiring leave obtains employment with a crown corporation so that, although he may be an employee of the crown, he is not paid out of the consolidated revenue fund, there appears to be no objection to the duplicate payment of salary.

In a recent case, the receipt of two salaries for 55 days during a period of retiring leave and simultaneous employment with a crown corporation, resulted in an increase of \$120 per annum in the amount of pension paid under the provisions of the Public Service Superannuation Act (if the contributor had been re-employed for the entire 26 weeks of his retiring leave, his pension would have been increased by approximately \$400 per annum).

The superannuation branch obtained legal advice before approving payment of the increased pension. If the superannuation account is to be protected from such cases in future, it would seem necessary to amend the Public Service Superannuation Act.

56. *Amount payable to the superannuation account deleted from the accounts.* It is provided in subsection (7) of section 7 of the Public Service Superannuation Act that where any amount payable by a

contributor into the superannuation account by reservation from salary or otherwise has become due, but remains unpaid at the time of his death, the amount with interest may be recovered, in accordance with the regulations, from any allowance payable under the Act to the widow and children of the contributor. Subsection (6) of section 5 of the regulations states:

"Where at the death of a contributor any amount payable by him into the superannuation account is due and payable and is not paid, the minister shall, if the amount with interest as provided in this section is not forthwith paid by the personal representative of the contributor, demand payment from the widow and children, or one or more of them, of the contributor, to whom an allowance is payable under the act and if the amount which is due and payable with interest to the date of demand is not paid, it may be recovered at any time and, without prejudice to any other recourse available to Her Majesty with respect to the recovery thereof, recovery may be made at any time by retention, by way of deduction or set-off out of the allowance payable to the widow and children, or one or more of them,

(a) in a lump sum immediately, or

(b) in instalments for a term specified by the minister,

as the recipient elects, with interest at the rate of four per cent per annum."

A department took exception to the application of this regulation in the case of a deceased employee who had been undercharged for a period of elective service, and on December 20, 1962 the governor in council approved a recommendation of the treasury board, pursuant to section 23(1) of the Financial Administration Act, that the Department of Finance be authorized to delete from the accounts an amount of \$521 that had been payable into the superannuation account by the late contributor. The action taken in this case was contrary to the public service superannuation regulations and, as far as we are aware, is unprecedented.

If it is found desirable to relieve a person from paying into the superannuation account any amount that is legally payable thereto, it is the audit office view that an appropriation should be provided to reimburse the account.

57. *Inadequate payment into superannuation account by crown corporation.* The employees of the Canadian Overseas Telecommunication Corporation were brought under the Public Service Superannuation Act with effect from November 1, 1961, pursuant to Vote 520 of Appropriation Act No. 5, 1961 and the regulations approved by the governor in council on October 26, 1961. On March 18, 1963 the regulations were amended by order in council P.C. 1963-441 to provide for payment out of the superannuation account of the pensions of four former employees of the corporation who had been retired under another pension plan. The department of insurance had calculated, in accordance with the interest and mortality tables used for valuation under the Public Service Superannuation Act, that an amount of \$200,013 would be required to be paid into the superannuation account in respect of the pension liability, but payment by the corporation of \$184,000 (the cost of purchasing the four immediate annuities at commercial rates) was accepted, with the approval of the treasury board, on March 31, 1963. As a consequence, the actuarial deficiency in the superannuation account at March 31, 1963 was increased by some \$16,000.

Mr. HENDERSON: Paragraph 55 deals with pension increased by payment of two salaries.

This is another comment which was left over until Mr. Bryce could appear before the committee. It illustrates a case where a civil servant on retiring leave obtained employment with a Crown corporation. Reference is made to a legal opinion to the effect that where a civil servant on retiring leave obtains employment with a crown corporation so that, although he may be an employee of the crown he is not paid out of the consolidated revenue fund, there appears to be no objection to the duplicate payment of salary. In this case, the receipt of two salaries for 55 days resulted in an increase of \$120 a year in the amount of pension paid under the Public Service Superannuation Act.

It seemed to my officers and me that if the superannuation account is to be protected from such cases in future, an amendment is necessary to the Public Service Superannuation Act.

Mr. LEBLANC: What is Mr. Bryce's opinion?

Mr. BRYCE: I agree.

Mr. LEBLANC: Then that settles the matter.

The CHAIRMAN: That is surely making rapid progress. Now, paragraph 56.

Mr. HENDERSON: This case deals with the amount payable to the superannuation account deleted from the accounts. This represents another case which was left over pending Mr. Bryce's appearance before the committee.

In this instance, it is provided under the Public Service Superannuation Act that where any amount payable by a contributor to the superannuation account by reservation from salary or otherwise has become due but remains unpaid at the time of his death, the amount with interest may be recovered from any allowance payable under the act to the widow and children of the contributor, and I quoted the pertinent subsection of the regulations. However, a department took exception to this regulation in the case of a deceased employee and in due course the treasury board, under section 23(1) of the Financial Administration Act, authorized the Department of Finance to delete from the accounts the amount of \$521 that had been due to the superannuation account by the deceased employee. As I say in my note, this action was unprecedented. Again, if a contributor is to be relieved from paying into the superannuation account any amount that is legally due, we are of the opinion that an appropriation should be provided to reimburse the account.

In other words, it should be made good from another source.

The CHAIRMAN: Mr. Bryce, have you any comments to make on that?

Mr. BRYCE: This action was taken by the treasury board and the governor in council for compassionate reasons on the recommendation of the Secretary of State for External Affairs at the time. The effect of it was, as intended, to relieve the mother of three young children, who was suddenly left a widow by the death of a clerk serving abroad, of the need to pay back with interest a claim of the crown for arrears of contributions amounting to approximately five months' pension which arose from an error made some years before by the superannuation branch. There seems to be no question of the authority of the ministers concerned to exercise the judgment they did in making an exception of this case. Now obviously, whenever you make an exception, you are worried by whether there are other exceptions, but the ministers made this decision and it seems to be within their power to make it. I do not know that there is much more I can say about it.

The CHAIRMAN: Are there any comments from any members?

Mr. LEBLANC: Mr. Henderson, how would you suggest that the amount be reimbursed to rectify the situation?

Mr. HENDERSON: If you take a payment like that out of a fund, the money should be put back in or else it goes into this accumulating deficiency which we have been discussing this afternoon. I would have no question about the propriety of approving it on compassionate grounds; that is beside the point. However, when you take things of this nature out of the fund, you should put something back. That is why I suggested an appropriation.

The CHAIRMAN: Are there any other comments?

Mr. HALES: Does this occur very often? Would it be worth while setting this up?

Mr. HENDERSON: As I mentioned, Mr. Hales, this was an unprecedented case which we came across in the course of our work.

Mr. BRYCE: I might just say that this would normally be picked up in the valuations of the fund along with other reasons that cause it to be a bit short. One could have a separate appropriation, of course, the main purpose of which would be to bring it to parliament's attention and require the ministers to justify it. It is well within the errors of the actuarial estimates. If there were many, they would be picked up and we would have to make good any deficiencies.

Mr. SOUTHAM: My suggestion is that we commend the Auditor General for being so accurate and keen in his work that he detected this isolated case and for appealing to us to deal with possible exceptions in the future.

Mr. FORBES: Would this show up in the next year's supplementary estimates?

Mr. HENDERSON: It will not show up now because they did not put in an appropriation for it. This is just a suggestion that we advanced to show how it could be made good. We have a somewhat identical case coming up in paragraph 57, I might say, where we have an item of \$16,000 that would have to be made good.

Mr. WINCH: Let us deal with paragraph 55 along with 57.

The CHAIRMAN: There is also paragraph 56. We might as well go on to paragraph 57.

Mr. HENDERSON: This refers to an inadequate payment into the superannuation account by a crown corporation. We left this one over, pending Mr. Bryce's appearance before the committee. You will note here how a crown corporation could have purchased the necessary four immediate annuities at commercial rates for the sum of \$184,000 when it appears, according to the Department of Insurance, that an amount of \$200,013 would have been required to have been paid into the superannuation account in respect of pension liability based on the interest and mortality tables that are used for valuation under the Public Service Superannuation Act. As a consequence the actuarial deficiency in the superannuation account was increased by this one transaction by around \$16,000.

The CHAIRMAN: Mr. Bryce, have you any comment on this?

Mr. BRYCE: Yes, sir. This may be a similar case, as Mr. Henderson said, as regards the effect on the fund, but that is the only way in which it is similar. There is nothing at all compassionate about this case. This was just taken as a hard headed business deal. The corporation could have bought annuities for these people from someone else. We chose to receive this amount in the superannuation fund and granted them the benefits under the superannuation fund. The money received from the corporation was in effect borrowed at a lower cost than the cost of borrowing on the market by the government at the time. The deficiency will be made up by a government contribution in due course, and the action in doing so is in effect paying a part of the cost of borrowing these funds over and above the four per cent rate credit on the amounts paid into the fund in the first place. The over-all effect will have been to provide

an estimated net saving for the government because it was cheaper for us to borrow money this way, by giving an annuity in return for it, than it would have been to borrow the \$180,000 on the market.

The CHAIRMAN: You will notice the keen interest when you mentioned savings to the government. The committee is always concerned with this.

Mr. BRYCE: It is a good thing that the Auditor General spotted this. We only pay four per cent on the superannuation fund, we do not change the interest rate. The market rates vary from time to time. Because of that you can get situations like this where it is well in our financial interest to take a contract like this from one of our companies even though it gives rise technically to a deficiency in the fund. By filling in that deficiency we in effect pay a portion of the interest over and above the four per cent, which is equivalent to what a private insurance company would sell the annuity for.

The CHAIRMAN: Does any member of the committee wish to ask any questions on this?

Mr. HENDERSON: This transaction does point up the fact that the superannuation account is a more costly pension fund than private funds.

Mr. BRYCE: More costly? Oh, Mr. Henderson, please. It does not point that up at all. It points up that we are not paying commercial interest rates on it at the moment. We credit an interest rate to the fund a four per cent, which remains invariable over a long period, and it means that at a time like this we are providing annuities at a lower interest rate than are commercial companies.

Mr. WINCH: What you are getting somebody is losing.

Mr. BRYCE: In this particular transaction we simply offered the annuity on the same basis as a commercial company would have offered it at the time. That was on a basis which we calculated was lower than the cost of borrowing funds on the market at the time.

Mr. HALES: What is your experience with other crown corporations? Are they using private firms for their superannuation or are the majority of them using the government plan?

Mr. BRYCE: The majority of them are using the government plan. Some of the major ones have their own. The C.N.R. has its own pension fund and the Central Mortgage and Housing Corporation has its own.

Mr. HALES: What about Polymer Corporation?

Mr. BRYCE: It has its own pension fund.

Mr. HALES: I would think that Polymer, which is one of the best operated crown corporations I can think of, must have given this very close study and must have decided that it would be advantageous to them to deal privately rather than go in with the government.

Mr. BRYCE: I would not say it is necessarily so. Polymer, as a matter of deliberate policy, does not like to be involved any more with the government than it can avoid. It likes to deal with everything on a commercial basis, including pension funds and other matters.

Mr. HALES: I have reservations on that. I would think that Polymer would give this a very close scrutiny before they would go either way, and I would think that after their investigations and studies they would find that there was a financial advantage in having a private pension fund.

Mr. BRYCE: But you are assuming that we would take them into the superannuation fund?

Mr. HALES: If they wanted to come, you would take them.

Mr. BRYCE: I am not sure that that assumption is warranted.

Mr. HALES: Well, perhaps we could ask Polymer to give us a report in respect of whether they looked into your superannuation before they decided which one they would take and why they decided to go into the one they did?

Mr. BRYCE: This was some years ago.

Mr. HENDERSON: Many of the private corporations have their own outside funds. Eldorado has its own; C.B.C. has its own—that is a trustee plan which I think we discussed when they were before the committee. The C.B.C. is getting a particularly good return on its investment at the present time and has quite a portfolio. Several have turned over their investments to the Department of Finance in exchange for joining. I think Canadian Arsenals, if I recall it correctly, was one. C.O.T.C. is in the public service plan now. This was part of its switch.

The CHAIRMAN: Are there any further questions on this item? I see we have one more item under the heading superannuation matters.

Mr. CAMERON (*High Park*): I am wondering why the Canadian Overseas Telecommunications Corporation did not buy its annuities itself and save the fund to the extent of \$16,000.

Mr. BRYCE: I do not know the situation from their point of view. However, I assume that when they found the government was willing to sell it to them at the same price as would the commercial company, they were quite prepared to do it on that basis.

Mr. CAMERON (*High Park*): It does not look like a very sound explanation to me. Why should they do that and take a loss of \$16,000 on the actuarial fund?

Mr. BRYCE: When we put up the \$16,000 we are still well ahead.

Mr. CAMERON (*High Park*): You could have done it the other way and would not have had this comment from Mr. Henderson.

Mr. BRYCE: If I can earn the interest, I am glad to do it.

The CHAIRMAN: Even with Mr. Henderson's comment.

Item No. 58 reads:

58. *Reciprocal transfer agreements for superannuation benefits.* Section 28 of the Public Service Superannuation Act authorizes the Minister of Finance, with the consent of the governor in council and in terms approved by the treasury board, to enter into an agreement with any public service employer (e.g., a provincial government) for the transfer of pension credits when an employee leaves the service of one employer to become employed by the other.

In the execution of agreements, it has usually been found that the terms of the Public Service Superannuation Act require a higher rate of contribution than those established under the other plans, and that the amounts available for transfer from the superannuation account are in excess of the amounts required by public service employers. While there is provision in the act for payment by the minister to a public service employer of the amount to be transferred in accordance with a reciprocal transfer agreement (employee's contributions, government's matching contributions and interest) there is no provision for a return of any excess amount of contributions to the employee. Nevertheless, a common provision in a typical reciprocal transfer agreement reads:

. . . and any excess amount held in respect of the employee and not required to be paid by the federal minister to the province will be dealt with, subject to the federal act, in accordance with an agreement between the federal minister and the employee.

We have been informed by the superannuation branch that "this provision is read as an agreement between the new employer and the

crown whereby the crown, on behalf of the new employer, deals with certain moneys that would normally form part of the transfer. In other words, the crown is empowered to transfer the whole amount, but as the second employer does not require the whole sum under the new pension plan he agrees to the crown paying a portion of the total directly to the transferred employee”.

It is our opinion that the Public Service Superannuation Act should be amended to provide for the disposition of any excess amounts of contributions in these reciprocal transfer cases.

Mr. HENDERSON: Paragraph 58 deals with reciprocal transfer agreements for superannuation benefits. Again, this paragraph was stood over pending Mr. Bryce's appearance before the committee.

It is explained here how a section of the Public Service Superannuation Act authorizes the Minister of Finance, with the consent of the governor in council, and in terms approved by the treasury board, to enter into an agreement with any public service employer (e.g., a provincial government) for the transfer of pension credits when an employee leaves the service of one employer to become employed by the other. It has been found that the terms of the Public Service Superannuation Act require a higher rate of contribution than those established under the other plans, and that the amounts available for transfer from the superannuation account are in excess of the amounts required by public service employers. While there is provision in the act for payment by the minister to a public service employer of the amount to be transferred in accordance with a reciprocal transfer agreement, for example, employee's contributions, government's matching contributions and interest, there is no provision for a return of any excess amount of contributions to the employee. Nevertheless, a common provision in a typical reciprocal transfer agreement provides that any excess held in respect of the employee, not required to be paid by the federal minister to the province, was to be dealt with, subject to the federal act, in accordance with an agreement between the minister and the employee.

The superannuation branch read this provision as an agreement between the new employer and the crown whereby the crown, on behalf of the new employer, would deal with certain moneys that would normally form part of the transfer. In other words, the crown would transfer the whole amount, but as the second employer would not require the whole sum under the new pension plan, he would agree to the crown paying a portion of the total directly to the transferred employee.

It is our view that the Public Service Superannuation Act should be amended to provide for the disposition of any excess amounts of contributions in these reciprocal transfer cases.

Perhaps Mr. Bryce would wish to comment on that.

Mr. BRYCE: Well, Mr. Chairman, this really is a very technical legal point. We have been assured that the course we follow, though somewhat intricate, is legal as well as practical and equitable. If the committee feels it is worth while to amend the law to make it clearer, we can bring forward an amendment when the act is next open. However, if you would be satisfied just to take note of the fact that we do this and that it seems to be the practical way to deal with it, then we would not need to make the act any more complicated than it is. I do not think Mr. Henderson has any objection to the substance of the transaction.

Mr. HENDERSON: That is correct; I do not have.

The CHAIRMAN: Does anyone have any comment?

Mr. CAMERON (*High Park*): What happens when the reverse situation prevails, when they make a lower contribution than is required in the federal plan?

Mr. BRYCE: I take it that this is where they are going out.

Mr. CAMERON (*High Park*): What about when they are coming in?

Mr. BRYCE: There are quite different provisions there. I cannot give them from memory. I suppose the reverse can happen where an employee is going out into a private plan which requires a higher contribution, and in that case he would have to make up the difference himself.

Mr. CAMERON (*High Park*): I mean when they are coming from a plan which has a lower contribution into your scheme which requires a higher contribution?

Mr. BRYCE: He would have to find the additional himself.

Mr. STENSON: If a person leaves the employment completely, can he draw all his money when he leaves? Perhaps this does not pertain to this matter.

Mr. BRYCE: If he is not going to another pension plan, then the law provides various benefits which he can get under various conditions and subject to various conditions. I am not expert enough in this that I can give them to you off the cuff.

The CHAIRMAN: Are there any further comments on this paragraph? This pretty well finishes all the matters dealing with the superannuation fund?

Mr. HENDERSON: Yes.

The CHAIRMAN: Looking back in the 1962 report, I see one item in respect of the town of Oromocto.

Mr. HENDERSON: Yes. We might take it in that order, if you prefer.

The CHAIRMAN: We will proceed in whatever order you wish.

Mr. HENDERSON: The one I have is paragraph 66 in respect of interest charges on loans to the National Capital Commission.

The CHAIRMAN: Item No. 66 reads:

66. *Interest charges on loans to the National Capital Commission.* In last year's report (paragraph 62) it was stated that it seemed unrealistic to put the National Capital Commission in the position where it was required to pay interest on loans obtained from the government of Canada for the purpose of acquiring property in the national capital region, when funds to meet the interest payments themselves must be provided through parliamentary appropriations.

Up to March 31, 1962 loans totalling \$35,100,000 had been made to the commission and its predecessor, the federal district commission (being an increase of \$9,800,000 during the year under review) for the purpose of acquiring property in the national capital region. Of this amount, \$3,622,000 had been repaid, leaving a balance of \$31,478,000. The loans are secured by promissory notes bearing interest payable semi-annually at rates of from 4 per cent to 5½ per cent per annum, and repayment is to be made when the property is "used for the purposes of the commission or disposed of". Repayments of \$3,553,000 in 1961-62 included \$3,200,000 received from the Department of Public Works on account of the cost of 4,400 acres of land allocated for the use of the Animal Research Institute of the Department of Agriculture.

Interest payments by the commission in 1961-62 amounted to \$1,505,000 and were credited to revenue by the Department of Finance as "return on investments". Of this amount, \$201,000 came from net income from rentals and interest on bank deposits and \$1,304,000 was provided by a parliamentary appropriation (vote 376) for payment of interest to the receiver general.

The following is a summary of property acquisitions as at March 31, 1962, financed by means of loans provided to the commission:

Greenbelt	\$23,375,000
Queensway	3,009,000
Ottawa River Parkway	870,000
Eastern Parkway	804,000
Other properties	2,520,000
	<hr/>
	\$30,578,000

The properties in the greenbelt are mostly farm properties which are unlikely to yield anything approaching sufficient rental to pay interest on the sums paid to acquire them and, by executive direction, they may not be sold. As the lands acquired for the Queensway, the parkways and other projects are put into use in the next few years, appropriations will be required to provide funds through the national capital fund in order to pay off the amounts of the loans made with respect to such lands.

We remain of the opinion that, since outlays on such properties are expenditures of the crown rather than income-producing investment, parliament should be asked to appropriate funds in the years in which properties are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

Mr. HENDERSON: The subject matter of this comment was discussed in detail on December 13, 1963, when Mr. Bryce spoke about it before the committee.

In my 1961 report and again in this paragraph of the 1962 report I stated that it seemed unrealistic to put the National Capital Commission in the position where it was required to pay interest on loans obtained from the government of Canada for the purpose of acquiring property in the national capital region when funds to meet the interest payments themselves must be provided through parliamentary appropriations. I went on to say that the properties in the green belt, for example, are mostly farm properties which are unlikely to yield anything approaching sufficient rental to pay interest on the sums paid to acquire them and yet, by executive direction, the commission cannot sell them. As the lands acquired for the Queensway, the parkways and other projects of the commission are put into use in the next few years, appropriations will be required to provide funds to the commission through the national capital fund in order to pay off the amounts of the loans made with respect to such lands. I, therefore, gave it as my opinion that since outlays on such properties are expenditures of the crown rather than income-producing investments, parliament should be asked to appropriate funds in the years in which the properties are acquired, instead of leaving the expenditure involved in the repayment of the loans to be absorbed in future years.

In his testimony before the committee on December 13, 1963 Mr. Bryce explained the background of this matter. He pointed out that the commission buys a good deal of land, not for immediate use but essentially for one of two reasons: first, to hold pending use because by the nature of its operations it has to plan and indicate in advance that it is going to acquire property in certain areas, and that being the case, it has been thought to be prudent and economical over the years to buy that property when the decision is taken to go ahead with plans to use it at a future time. He said the second purpose for which it buys property is to own the property in order to be able to control the use of it. Hence it was decided years ago that since it was necessary for the commission to control the use of the land in this way, the government through the commission should purchase the land and then lease it, thus controlling the property as owner rather than as a government.

He said that it was as a result of these two types of operation that the need for the present arrangement arises. The interest charges are charges for loans made by the government to the commission to purchase land for either or both of the two purposes. It was thought that this procedure put the commission under some pressure to get all the revenue it could out of land while holding it for these purposes so that each year the commission would have to justify to treasury board the revenue they are getting from it and the government would have to justify to parliament the revenues that are being received. The issue, as he saw it, was whether the purchase of the property should be charged to expenditures at the time it was acquired or after it was put to use. This discussion is contained on pages 294-300 of the evidence of the 1963 committee.

On December 19, the committee brought down its fourth report, and having noted that the National Capital Commission remains in the position where it is required to pay interest on loans obtained from the government of Canada for the purpose of acquiring property in the national capital region and that funds to meet the interest payments themselves must be provided through parliamentary appropriations because the property held does not yield sufficient revenue, pointed out that parliamentary appropriations will be required in future to provide further funds to the commission in order to pay off the amount of the loans made.

In its report the committee took the position that since outlays on properties such as these are expenditure of the crown, the committee believed it would be more realistic if parliament were asked to appropriate funds in the years in which properties which are not to be specifically held for resale are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years. Accordingly, it recommended that the executive review the present practice with the National Capital Commission with a view to placing the financing of the commission on this more realistic basis.

In reporting to you in my follow-up report of May 15, 1963 on the action taken on recommendations such as these, I said that I had no information as to the extent to which the present practice was in fact under review as recommended by the committee.

I know Mr. Bryce would like to discuss this matter further with the committee today.

The CHAIRMAN: I understand Mr. Bryce has a general comment on this problem.

Mr. BRYCE: Yes, Mr. Chairman. I will try to shorten the notes I have here, but this subject leads us into a more general issue that may be of interest to the committee as a matter of principle.

First, I should say that the department, the minister and the treasury board have noted the committee's recommendations in respect of this matter, but the recommendations arrived late enough that the estimates for this year in regard to this matter had been pretty well settled and have come to the House of Commons as you will have noted in the same form as before. This should not be taken as evidence that the government is not prepared to consider seriously the committee's recommendation, which they will be doing before the next estimates are prepared.

Perhaps I should skip over the history and say that this practice of lending to the capital commission for these purposes has been approved not only by this government, and the preceding government but by three parliaments in dealing with the estimates for which these have been provided both in respect of loans and the portion of the interest that has to be voted to meet them. I do not think there is any need to go over the figures because they are in the Auditor General's report and he has given the critical ones.

I should like to say the purposes which governments have had in mind in financing these acquisitions of property by the commission in the form of loans rather than capital grants would include, I would say, the following.

- (a) First, it is done to reflect the fact that the government, through the commission, was to hold valuable marketable property not yet physically committed to government use. In other words, this property is not property the government is using for government purposes, either in the green belt where it is being leased to others, to control its use, or in other cases where it is acquired in advance of needs in order to safeguard the price. The lands both in the green belt and acquired in advance of need for parks, parkways, and other purposes could be sold in most cases for as much as was paid for them if the specific decisions were changed or the policy were changed, and they can be changed if for example parliament decided that we should give up trying to control the uses of the land in the green belt, and then it would be feasible to sell the land which was acquired. Naturally, you would not throw it on the market at the same time, but various parcels remain valuable land except that the government has placed a limitation as to the purpose for which it should be used. By reflecting them as an asset in the meantime, we are taking account of the fact that they are not yet incorporated into government capital projects or put to government use.
- (b) The second purpose of doing this by loan is to show to parliament and others the cost of holding these assets to control their use or to acquire them in advance of need, and to get suitable parliamentary approval year by year for holding them in this way. In other words, we ask parliament for the funds necessary to keep them in this condition and restrict their use in the case of the green belt or hold them in advance of need in the case of the other purpose. The net amount of interest that has to be voted by parliament is a measure of the cost of controlling the use of the land in the green belt year by year, and a proper reflection of the cost being borne by the public currently for the advantages gained by controlling the use of this property. Similarly, the cost of holding the land acquired in advance of need for other purposes reflects the costs of securing this land in advance as a precaution against an increase in price thereof. The third reason for doing this by way of loan is to maintain appropriate pressure on the National Capital Commission to secure the best revenue it can from these lands which are available for rental and also to encourage them to take the interest cost into account in the acquisition of those properties which are acquired in advance of need.

These purposes, which I would contend are sensible and serious purposes, would not be achieved if the policy recommended by the Auditor General were followed and the lands simply charged to expenditure in the years in which they were acquired. There would be no occasion in future then to call parliament's attention to the cost of holding such lands, and if one can judge from previous experience, the expenditures of past years on these capital purposes would be much more likely to be lost sight of than if they are held in the present way.

The only advantage I can see in his policy is that it would be, in the committee's term, "more realistic", that is, as far as I can understand it, it would not involve us as showing as an asset something that does not yield

an interest return without requiring an appropriation for that purpose, or is not a liquid, or immediately saleable asset.

In other words, the advantage of what is recommended by the Auditor General is simply that it removes from our statement of assets something whose quality as an asset is doubtful.

This leads us to the question of what is the proper test to apply to the assets that should be shown in the government's accounts as an offset against the liabilities that are shown there. I think that the Auditor General has performed a most useful service in raising this issue on this case because it applies to a number of other cases as well and suggests in my mind that we should review systematically the principles to be followed in selecting those assets to be shown on our accounts.

There is considerable history to this subject, but I would not propose to detain the committee with it tonight. A brief summary of it can be found on pages 117 and 118 of Volume 1 of the Glassco commission's report. As indicated there, the inclusion of a statement of assets in our accounts originated almost immediately after confederation. At that time loans were made to meet the cost of specific public works and they were so shown in the accounts. Early in the 1920's Sir Henry Drayton, as Minister of Finance, initiated a review of this practice and introduced a radical reform in the system. He stated:

Assets which are not readily convertible, as the reserve is convertible, or are not interest producing, are not such assets as ought to be deducted from the gross debt. They are inactive, they are items of such a character as might well be placed in a suspense account. At any rate, whatever may be their future value, however great it may be, they are not assets of such a character as to directly reduce the gross debt any more than the other capital accounts of the country ought to be deducted from it.

This statement of some 40 odd years ago still remains the principal guide in the selection of assets to be included in our accounts. It excludes all the fixed assets of the government held for use—land, buildings, equipment, etc. This is quoted in the public accounts which are under discussion this year in this committee, on page 16 of volume 1, which is the small blue volume, and we say there, "since that time, there has been no fundamental change in the basic structure of the statement or in its main purpose. However, revisions have been made from time to time to improve the form or manner of presentation, and it is believed that to a substantial degree the present statement fulfills the original intention, with consideration being given continually to the possibility of further improvements."

In recent years there have been a number of changes in what is included which do not fit exactly into Sir Henry's category, which he defined rather negatively. We now have, as you will have noted, a very large number and value of assets that we take into our account, as noted on page 168 of the 1963 report, nearly \$11 billion, which we deduct from the nearly \$25 billion liabilities, to get our net debt of approximately \$14 billion. The great bulk of these clearly meet Sir Henry's tests. They include large amounts of cash and of advances to the exchange fund account, covered by foreign exchange held in that account, even though there are some narrow margins at times, as the auditor has pointed out. The largest item, however, now is loans to and advances in crown corporations about which there can be arguments in detail, and I would think that there are probably items in there on which we could have discussions similar to that relating to the National Capital Commission, because while the interest may be payable it may in a number of cases require appropriations to make good the deficit thereby incurred or increased.

In addition, we now have large loans to the governments of other countries, amounting to something over \$1,200 million at March 1963. Other loans and investments include large amounts of subscriptions and loans to international organizations, some to provincial governments, some to veterans, and others. In addition, we have certain deferred charges treated as assets and deducted from debt although they are essentially a means of deferring until a later year a charge to an appropriation in somewhat the same way as these arrangements with the National Capital Commission involve a deferment of the charge in the case of the property being secured in advance of need to be put into a project in a later year.

As these assets became larger and more varied, the ministers of finance during and after the war set up a reserve against them which now amounts to some \$546 million. That is shown here in line 12 of the statement, at page 168. This was deliberately not earmarked against any particular asset or class of assets, but it was intended to allow for the fact that some of them could not be expected to be realized upon in full or might otherwise fail to meet in full the tests that ought to be applied. As I remember, the previous Auditor General used to give us a lot of trouble over not earmarking this reserve against particular assets. The extensive use of crown companies and agencies has in particular complicated the situation. An interest-bearing loan to such a corporation as the National Capital Commission is technically within Sir Henry's tests because it is interest-producing, but of course as the Auditor General has pointed out, these do not appear to be realistic assets if the corporation as a whole is not producing sufficient revenue, without appropriations, to pay the interest. On the other hand there are managerial reasons for treating these as loans and not writing them off.

Some observers have felt that the whole effort to select and value certain of our assets and show them as an offset to our liabilities is not worth while and should be abandoned. The Glassco commission, of which of course the previous Auditor General was a most distinguished member, recommended that "the statement of assets and liabilities be replaced by a statement accounting for outstanding debt, direct and indirect, with no reference to net debt". I am not too clear just exactly what would be involved in accounting for some of the direct debt if we tried to trace it to disbursements made to acquire assets. In any event, however, we now have billions of dollars of assets in cash or the equivalent of cash, and it seems wrong to disregard that completely. We have other billions that are fully "revenue producing" and produce a very large revenue in the form of a return on investments. It seems to me unrealistic to leave these entirely out of account in presenting our statement of debt.

Moreover, what is equally important, in presenting our budget account each year, it is helpful to be able to make a distinction between what is properly to be charged to expenditure and recorded in our budgetary accounts that way each year and what can properly be treated as a disbursement to acquire certain types of asset. Without having some asset and liability accounts we could not make such a distinction in the way we do now, and the result I think would be a less meaningful picture to the public of our budget position and more variation from year to year based on rather temporary factors.

The problem that remains, therefore, is to draw the boundary line properly as to what we should include in our assets for these purposes. We have in recent years diverged to a modest degree from the tests set up 40 odd years ago, and in particular in our treatment of loans to crown companies, of which the N.C.C. case is perhaps the most vivid.

We believe in many cases, such as this with the National Capital Commission, it is better to make loans to our corporate agencies, to record them in our books as such, and require the agency to pay interest and repay the loan

on some basis of principle and in accordance with a contract or law applicable thereto. We think that that produces a more meaningful statement of accounts both for us and for the agency and promotes good management. When I say that I do not mean that it fools anyone. We are thinking here in terms of the managerial approach, how we want the corporate agencies to behave, and the responsibility we try to take.

In some cases, such as that of the C.N.R. at the present time, it is desirable to make recapitalization arrangements where circumstances have changed. When the legislation proposed for the recapitalization of the C.N.R. comes along, there will be ample opportunity to discuss this both in principle and in practice.

I would suggest that in a later year (I hope not next year in view of all that has to be done next year) the committee might be prepared to consider a studied report from the department reviewing in general our practice in recording assets and liabilities, with proposals for a policy to be followed in future years.

In this way we can look at this whole picture systematically.

The CHAIRMAN: And we can bring Sir Henry up to date.

Mr. BRYCE: Yes. I was surprised to find out we had no enunciated policy for over 40 years; that is, no general policy. I apologize for that rather lengthy statement but I thought it would set this N.C.C. case in a rather larger perspective.

The CHAIRMAN: Are there any questions members of the committee wish to put at this time? If not, have you a comment to make, Mr. Henderson?

Mr. HENDERSON: Mr. Chairman, I have been very interested in listening to Mr. Bryce's statement on this. He has given you a good picture of the background which led up to the situation that we have today. Now, the loan and investment concept that he has outlined may well have enabled the government to control the use of the lands acquired by the commission and by virtue of annual appropriations for interest on the loans to not only reflect the cost of carrying this mounting investment but to put an incentive on the commission to get the best return it could from rentals and so forth.

But I must draw your attention to the fact that the concept also produced another result over the years and that has been to reduce budgetary expenditures which would otherwise have been incurred had the purchase of the land been financed out of annual budgetary appropriations.

As it is, the only budgetary appropriation we have seen has been for interest on the loans to enable the N.C.C. to repay it to the government. The government then takes the interest repayment into its budgetary income. I feel it is the duty of your auditor to draw your attention to situations like these. Up to March 31, 1964, taking the latest date, loans totalling \$57.1 million have been made to the N.C.C. and its predecessor. They are up \$12.2 million from the previous year, and of this amount of \$57.1 million the National Capital Commission has only paid back \$4.1 million, leaving \$53 million still outstanding.

And of this \$4.1 million that it has paid back, \$3½ million came from the Department of Public Works when it bought land in the green belt. The loans bear interest at various rates from 4 per cent to 5¾ per cent and repayment is only to be made by the National Capital Commission when the property is "used for the purposes of the commission or disposed of". Capital repayments in 1963-1964 actually only totalled \$119,000.

With acquisition of properties like Lebreton flats, the real estate on Sussex drive and in centre town for the future construction of government buildings,

the National Capital Commission has, as I see it, simply become the land assembly agent for the Department of Public Works in the national capital region. You will appreciate that if these properties had simply been purchased by the department directly, the costs presumably would have been treated as budgetary expenditure in the year of acquisition. The lands acquired are surely crown lands whether they are administered by the Department of Public Works or by the National Capital Commission.

Last December this committee recorded its agreement that it would be more realistic were parliament asked to appropriate funds in the years in which the properties are to be acquired and thus have such funds included in each year's budgetary expenditures. In my view this is the right procedure and I would hope the committee will say this again and recommend that the present practice be reviewed so as to place the National Capital Commission financing on this more realistic basis.

That is all I have to say on the matter at this stage. This is the way I see the matter.

The CHAIRMAN: We have had two complete statements on this matter. Are there any questions?

Mr. HALES: From what you said, the National Capital Commission borrowed approximately \$57 million, money with which to pay the interest on the money that the government had loaned them. So the government is borrowing it own money and paying the interest on its own money, and then it appears as a credit.

Mr. HENDERSON: The government lends the money each year to the National Capital Commission with the cost shown under the heading of loans or advances to agencies. The National Capital Commission is quite unable to generate income itself to service its debt to the government. Therefore, by means of further appropriation it is enabled to pay the interest and the National Capital Commission then turns around and gives it back to the government which takes it into revenue.

Mr. HALES: And this appears as income.

Mr. HENDERSON: That is correct.

Mr. HALES: This does not appear to me to be good business practice, but what better way is there to do it? If you bought a building outright and paid for it that year, then, this would be interest owing on the mortgage, as it were.

Mr. HENDERSON: You would give them the money to buy the building and that would be the transaction.

Mr. ROCK: All the government does is to borrow the money on their own account.

Mr. HENDERSON: That is right, that is what they do with a public works building. Perhaps I might ask Mr. Long if he would care to comment on this.

Mr. LONG: I jotted down two or three notes when Mr. Bryce was speaking. He mentioned that financing in this way reflected the fact that the government was holding valuable marketable property. As far as the green belt is concerned, this property is no doubt valuable today and could be marketed, but under government policy it is not marketable. One block of property was sold and that I believe firmed up government policy, and the National Capital Commission was told that no more property was to be sold.

The Queensway is being financed in this way, too, but it is not, I would think, valuable marketable property. I refer to the property bought for the

Queensway or for other roads which are to be transferred to the city or to the province. Appropriation will have to be provided to repay the loans at the time the transfer takes place.

There was an amount of money used for the animal research property in the green belt. The property was financial initially with loans, but eventually there had to be an appropriation when the Department of Agriculture took over the property required for a research station. It is true that policy could change, and the green belt could be sold, but this seems to be an eventuality we can see only by looking a considerable distance into the future. It means that we must go along for years appropriating money to pay interest thus increasing both the expenditures and the revenues of the government. Mr. Bryce mentioned that the policy being followed shows the cost of holding such property. It seems to me that the group which should be most interested in the cost of holding the property would be the government of the day.

To appropriate interest in this way does not affect the government budget. It goes out and it comes in. The deficit or surplus position by any year would remain unchanged by it. Then there was mentioned the possibility of the holdings being lost sight of. In this way they cannot be because they are on our balance sheet in the form of loans. My feeling is that the green belt will never be lost sight of. It is right before our eyes all the time.

Probably we have parcels of land scattered right across the country that the average individual does not know anything about and the government has to rely on its land inventory records to keep track of them. The green belt seems to be rather an outstanding exception in the policy of not capitalizing government land.

The CHAIRMAN: Are there any further questions or comments? What about you, Mr. Bryce?

Mr. BRYCE: I do not want to provide answers in advance of the members asking questions. But I think it is desirable to describe these two cases. The green belt is a unique situation. I do not know any other city or government that has undertaken quite such an operation. But when it was undertaken I know that both Mr. St. Laurent who made the preparations, and then Mr. Diefenbaker felt it was an important long-term investment that would eventually in 50 to 75 years turn out to be a good investment as well as sound urban planning. With that in mind we felt that the National Capital Commission should be encouraged to be under whatever financial pressure they could to get the best revenue they can out of it, and to account for it, and that parliament should know from year to year what it was costing to hold this land in the kind of use that would fit in with an urban conservation policy, and that lending the money to be invested in green belt land was one of the ways to achieve this purpose. It is exceptional. It differs from ordinary public works land. Of course it does. I make no bones about it. It is quite an exceptional transaction entered into because we did not have the power to pass laws to say what the land could be used for. I have felt, and I know that previous governments have felt, that this made sense and was worth while. Of course one postponed expenditures by doing this.

If Mr. Henderson objects, as it would seem, that this is the chief reason for our entering into this, and that we should be admonished for it, well, that is his opinion. I do not believe myself that it has had that purpose at all. In any event the green belt is a different and quite unique case.

The other type where we are purchasing land in advance of use is much more comparable with the public works analogy which Mr. Henderson and Mr. Long mentioned. Here, however, there is a difference, I would suggest,

in degree. It is the normal thing for the National Capital Commission to purchase land many years in advance of use because its basic purpose is urban planning and the preparation years in advance for the building of parkways, parks, and things like that which require a great deal of land. Canada has saved millions of dollars by this purchasing of land many years in advance. We felt, however, at the treasury that if this was to be done, the commission should take interest into account. If you are going to buy property ten years ahead of time and you are going to put it into a parkway, you should take interest into account, and say here, ten years interest will amount to whatever it will be, 60 to 70 percent of the cost of that land.

If they have to pay interest on the cost they have to ask the treasury for the interest year by year and the treasury will examine them on whether they have been doing a proper job on it. Then we have a better chance to make them conscious of the interest factor in carrying out this policy. This is the real purpose behind this thing. Of course, it is similar to the kind of thing that public works or other departments would run into. But I suggest to you that there is a difference in degree that warrants some difference in treatment particularly where we are doing it through a corporation agency, not through a department which is under day to day control of a minister.

One other thing: Mr. Long, I think, or Mr. Henderson one or the other suggested that because this is farm property in the green belt it cannot yield any rental. The treasury board I know has always tried to get the National Capital Commission to get all the rental they can out of this property, and to adopt a use so that they could get as much revenue out of the property as is possible within the restrictions placed on it. And as time goes on and the original leases run out and the tenants move away, I would expect to see a considerable increase in the rents.

I would have thought that one of the useful things this committee could do is to see to it that the National Capital Commission is examined from time to time on why it is not earning more of the interest on loans. However, Mr. Chairman, I am just trying to put the case, as I understand it has been made, for the loans in the past.

Mr. FRANCIS: Mr. Chairman, I cannot help but agree in general with Mr. Bryce's comments. I disagree with one or two things. First, it will not be 50 years before a handsome return is shown; it will be more in the order of 25 years or even a shorter period, because certainly some of the properties are being put under very lucrative rents now as well as long term leases and development of the site.

I would ask Mr. Bryce, through you Mr. Chairman, the following question: Does he not feel that such a policy leads perhaps to undue emphasis on commercial returns from the green belt lands, and should not perhaps more attention be focused on long term use of the green belt by keeping pressure on the National Capital Commission through their annual appropriation and so on? Does he not feel that perhaps a short range objective is being taken? I personally think that a balance should be struck here and I feel that the effect of the policy of the department is to keep too much to this kind of short term objective.

Mr. BRYCE: It is natural that the Department of Finance would err on that side, but the results, as the Auditor General pointed them out, do not suggest we have been over-successful in erring on that side. On the other hand, I would say that the practice we have been following brings to parliament's attention each year the very point that Mr. Francis has made.

Mr. FRANCIS: I do not disagree with that.

Mr. BRYCE: Parliament can consider whether too much emphasis is being put on revenue or on use of the land. This is an enormous asset.

Mr. FRANCIS: I predict it will be one of the most profitable real estate enterprises in Canadian history.

Mr. BRYCE: I suppose this investment will run to \$30 million odd in perpetuity, or at least for many, many years, and I would suggest that parliament has some continuing responsibility for having a look at the use that is being made of the land when this enormous investment was made.

Mr. CARDIFF: Was this farmland that was taken over?

Mr. BRYCE: Most was, but not all.

Mr. CARDIFF: In what condition is this land? Is it fit to grow grass on?

Mr. BRYCE: I am sorry, I am not an expert in it. Mr. Francis would be better able to answer that question.

Mr. CARDIFF: I do not know anything about this thing but I would like to know in what condition this land is and what use is being made of it. Is it valuable farmland of which use could be made?

Mr. BRYCE: A good deal of it is being used for farmland but the prices that had to be paid for it were based on alternative uses to which it could be put if the crown did not buy it, and therefore the crown had to pay amounts that were not appropriate to farmland but appropriate to land for development for one purpose or another. In many cases it was land appropriate for a subdivision. Of course, those prices were a good deal more than people would pay for farming purposes.

Mr. STINSON: My question is: What percentage of the cost do we get back? Do we get one or two per cent back? Say it is costing you five or six per cent to carry it, what percentage would you get in return?

Mr. BRYCE: We are getting about one per cent on the investment, or something of that order.

Mr. FRANCIS: Surely the immediate return is not a factor; it is the ultimate return and use you get out of it. I am sure the immediate return on this investment is not any indication of what the returns will be.

Mr. WINCH: Is not the government itself going to buy it back?

Mr. FRANCIS: I hope not.

Mr. CAMERON (*High Park*): I am just wondering, Mr. Bryce, whether you decrease the asset value of the land by the difference between what you pay an interest on and what the N.C.C. pays back? If the government pays \$3 million interest in 1963, does that add to the value for asset purposes?

Mr. BRYCE: No, sir, and I would suggest that in the case of the green belt this would hardly be appropriate because it is intended not to sell this land but to hold it indefinitely. It well might be a good point that when the National Capital Commission acquires land in advance which it intends to put into its projects, that eventually the land ought to be charged on the project at a cost which includes interest on the original investment.

Mr. CAMERON (*High Park*): It is easy to go back over the years and see what it is. Twenty-five years from now someone easily might say, look how smart we were in paying \$30 million when now it is worth \$100 million.

Mr. BRYCE: The logical thing might be to lend them money to pay interest, but I would hesitate to say what the Auditor General would say about that!

Mr. SOUTHAM: By way of information, does the National Capital Commission or any authority in the government assess this land at intervals in an effort to find out what is the appraised value of its worth at the present time, the same as would be done in a normal assessment.

Mr. BRYCE: I do not think the government makes such an assessment, but the treasury board has been urging on the National Capital Commission that it should develop the property management side of its business, because it is acquiring and has acquired very large amounts of property. To put it to the best use and to get that good balance between proper urban use and good revenue requires skilled management.

Mr. SOUTHAM: I think if this is done—and I would make this as a suggestion—it would give a better appraisal, and the interest charges to which you referred would not seem so exorbitant, and it would be put in a better perspective so far as an investment is concerned.

The CHAIRMAN: Gentlemen, we still have six or seven items. Do you think we could push on in the hope that we might have time to finish this evening? We have had a very good discussion on the National Capital Commission.

Mr. FORBES: Mr. Chairman, I do not know of a better time to get these items through.

The CHAIRMAN: I believe the next item is paragraph 140 in the 1962 report and paragraph 123 of the 1963 report:

140. *Accounts receivable.* As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the statement of assets and liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding totals at the close of the preceding year, is given in the departmental sections of volume II of the public accounts (with the exception of the taxation division of the Department of National Revenue). There is, however, no one place in the public accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. It would be informative to parliament were an appendix giving this information included in the public accounts in future.

It has not been the practice over the years to include in the public accounts any information regarding amounts receivable by the taxation division of the Department of National Revenue, but it seems desirable that such information be made available to parliament.

The following summary of accounts receivable includes the totals given in the departmental sections of the public accounts at March 31, 1962, together with totals of balances receivable as at February 28, 1962 by the taxation division, as provided by that division:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 715,620	\$ 795,611	\$ 51,466	\$ 1,562,697
Citizenship and Immigration	28,256	323,633	312,451	664,340
Defence Production	4,187	13,664	259,329	277,180
Justice	150,627	2,432	30	153,089
National Defence	4,565,080	965,958	185,077	5,716,115
National Health and Welfare	904,453	274,816	169,825	1,349,094
National Research Council ..	101,713	14,305	150	116,168

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
National Revenue—				
Customs and Excise				
Division	4,856,019*		2,304,292*	7,160,311
Taxation Division	187,320,412*		15,825,226*	203,145,638
Northern Affairs and				
National Resources	99,187	14,114	18,617	131,918
Public Works	1,139,578	262,103	44,753	1,446,434
Royal Canadian Mounted				
Police	261,463	4,317	23,694	289,474
Trade and Commerce	114,929	8,936	7,054	130,919
Transport	3,473,178	2,959,651	7,309	6,440,138
Veterans Affairs	3,359,409	2,571,060	821,019	6,751,488
Other departments	140,955	59,963	50,920	251,838
	<u>\$ 207,235,066</u>	<u>\$ 8,270,563</u>	<u>\$ 20,081,212</u>	<u>\$ 235,586,841</u>

*These totals relate to both current and previous years.

The accounts receivable totals shown in the above table were after writing off the following balances during the year under review:

Uncollectable debts of \$1,000 or less deleted from the accounts under the authority of section 23 of the Financial Administration Act	\$ 809,991
(Agriculture, \$17,348; Citizenship and Immigration, \$62,804; National Defence, \$20,807; Customs and Excise Division, \$34,943; Taxation Division, \$629,107; Transport, \$6,079; Veterans Affairs, \$31,205; and other departments, \$7,698)	
Uncollectable debts in excess of \$1,000 deleted from the accounts under authority of Vote 710, Appropriation Act No. 4, 1962	3,703,795
(Agriculture, \$3,787; Citizenship and Immigration, \$97,226; Defence Production, \$8,282; Finance, \$116,747; National Defence, \$116,903; Taxation Division, \$3,299,327; Northern Affairs and National Resources, \$16,057; Transport, \$21,612; and Veterans Affairs, \$23,854)	
	<u>\$ 4,513,786</u>

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the statement of assets and liabilities, they are nonetheless debts due to the crown, and their accurate recording and ultimate collection are prime responsibilities of the departments concerned.

While we have found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this frequently does not apply in the case of departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to remove the possibility that now exists of accounts being tampered with and collections misappropriated.

123. *Accounts receivable.* As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding total at the close of the preceding year (other than with respect to balances receivable by the Taxation Division of the Department of National Revenue) is given in the several departmental sections of Volume II of the Public Accounts. There is, however, no one place in the Public Accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. We suggested in last year's report that it would be informative to Parliament were an appendix giving this information included in the Public Accounts in future.

The following summary of accounts receivable includes the totals given in the departmental sections of the Public Accounts at March 31, 1963 together with totals of balances receivable as at February 28, 1963 by the Taxation Division, as provided to us by that Division:

Department	Current Year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 1,184,198	\$ 736,331	\$ 36,322	\$ 1,956,851
Citizenship and Immigration	67,925	256,733	186,346	511,004
Defence Production	1,115	1,911	259,329	262,355
Finance	100,104	8,495	607	109,206
Justice	203,401	129	18,841	222,371
National Defence	4,266,901	2,170,985	217,913	6,655,799
National Health and Welfare	698,189	344,815	193,051	1,236,055
National Revenue—				
Customs and Excise Division	7,923,513*		2,229,997*	10,153,510
Taxation Division	160,637,394*		21,640,427*	182,277,821
Northern Affairs and National Resources	99,333	298,870	25,055	423,258
Public Works	713,797	200,324	140,536	1,054,657
Royal Canadian Mounted Police	311,405	10,904	24,489	346,798
Trade and Commerce	119,620	8,929	7,784	136,333
Transport	3,791,841	3,734,192	30,526	7,556,559
Veterans Affairs	3,817,265	2,420,500	800,216	7,037,981
Other departments	213,054	85,614	51,245	349,913
	<hr/> \$ 184,149,055	<hr/> \$ 10,278,732	<hr/> \$ 25,862,684	<hr/> \$ 220,290,471

*These totals relate to both current and previous years

The accounts receivable totals shown in the above table were after writing off the following uncollectable debts of \$1,000 or less deleted from the accounts during the year under the authority of section 23 of the Financial Administration Act:

External Affairs	\$ 14,511
National Defence	22,318
National Revenue—	
Customs and Excise Division	328,797
Taxation Division	813,224
Transport	15,655
Veterans Affairs	95,867
Other departments	16,568
	<hr/> \$ 1,306,940

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the Statement of Assets and Liabilities, they are nonetheless debts due to the Crown, and their accurate recording and ultimate collection are primarily responsibilities of the departments concerned. While we have again found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this does not apply in the case of some departments where accounts receivable as such are not an important factor. We continue to believe, as was mentioned in last year's Report, this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to reduce the possibility of accounts being tampered with and collections misappropriated.

Mr. HENDERSON: These paragraphs have to do with accounts receivable and were reviewed by the committee on June 16. At that time I pointed out to the committee how we show here for the first time a summary of accounts receivable. Because the government keeps its accounts largely on a cash basis, its accounts receivable are maintained in memorandum form; that is to say, they are not on the books as they would be under the accrual basis used in private business where you have accounts due from customers and have a reserve for uncollectable moneys and show both right on the books. In the government they are kept in memorandum form and we have put together here for the first time a summary to show something of their size. It will be seen that they are quite considerable, the largest being those of the taxation division of the Department of National Revenue. At the end of 1962 they were to the order of \$203 million of which it was estimated nearly \$15 million would be uncollectable from previous years. A similar presentation is contained in my 1963 report under paragraph 123 at page 79. Uncollectable accounts are being written off each year, as you will see from the information given on page 76, which shows that accounts written off during the year were to the order of \$4.5 million.

The fundamental point I have to make about the manner in which these accounts receivable are maintained is contained in the last paragraph of this item on page 76. We find that most of the departments having extensive accounts receivable keep their records accurately and efficiently, but this does not always apply in the case of departments where accounts receivable are not an important factor. Those departments do not attempt to keep any controlling accounts and to provide for an effective internal verification by officers other than those responsible for keeping the accounts. I am of the opinion that this is a weakness in the system of internal control which should be remedied in order to ensure to the maximum extent possible that the accounts are not subject to being tampered with and that collections are not misappropriated. Auditing experience with accounts receivable maintained on a memorandum basis has shown that unless there is a control account maintained by people who themselves have nothing to do with the detailed accounts as such, the opportunity exists for an account to be collected and the funds misappropriated.

Now, I would hope my comments here will commend themselves to the members of the Committee and to Mr. Bryce. Also, I would hope that steps perhaps might be taken to review accounts receivable procedures where necessary and for independent control accounts to be set up and maintained by the chief treasury officers serving under the comptroller of the treasury. Mr. Bryce might care to speak to this, Mr. Chairman.

The CHAIRMAN: I see that Mr. Bryce has some notes here.

Mr. BRYCE: Mr. Chairman, I would not want you to be influenced by the fact that I have a few notes, because they start with the sentence, "This is a subject I have never had occasion to look into except as part of a general picture."

I must say it is my impression that this is one of the less tidy parts of the government's accounting system and will warrant some systematic review as part of the work that is being done on the improvement of financial management by departments which the treasury board has put in hand. As I think the members of the committee know, there have been at least four investigations by outside consultants in respect of the application of the general advice received from the Glassco commission. As a result of that, I think we can expect some improvement in this as well as in the other financial management practices of departments.

I would certainly wish to call to the attention of the treasury board any conclusions that the committee might reach on this matter as a result of the Auditor General's observations and, if it is desirable, to go into the thing in more detail, I think it would be better to have witnesses from the major departments concerned who could testify to the practice they actually follow.

As you can see from the table in the Auditor General's report, the Department of Finance, while it has millions and billions of figures in other accounts, has very few of these accounts receivable and, as a department, I do not think we are a large part of it. Normally the comptroller of the treasury does not deal with the accounts receivable aspect of the departments' operations; they are done as a departmental responsibility.

Therefore, I think I might sum up by saying I regarded the Auditor General's advice on this matter as important and meriting consideration by this committee and—if the committee so considers—meriting consideration and action by the treasury board as a part of its major efforts at the present time to improve the arrangements and practices in financial management by departments.

The CHAIRMAN: Thank you. Those comments may make our task easier.

Mr. HALES: Did I understand the Auditor General to say there are several departments which do not have an accounts receivable control?

Mr. HENDERSON: That is correct.

Mr. HALES: I am amazed at that. How can you control the accounts receivable at all; how can you, as Auditor General, verify them?

Mr. HENDERSON: So long as they are kept in this memorandum form I regard that as a dangerous method for the reason I gave. As I say, auditing experience has shown here that conditions can exist and where opportunities for tampering and misappropriation can breed. With all due respect to Mr. Bryce's suggestion, I think there is an important principle here and that it should not necessitate calling the departments before us to find out if this condition exists. We know this condition exists. I have expressed the hope, if you accept my view here, that something practical might be done about it perhaps by the chief treasury officers who are right there.

Mr. Bryce said these officials do not concern themselves with accounts receivable, but my point is I think they should concern themselves. They should see that the bills go out and that they get paid.

Mr. BRYCE: On that point, Mr. Chairman, I should say that I do not think the treasury officials have any authority to deal with this.

Mr. HENDERSON: They may not have the authority as such, but would it be a very difficult job to ask them as a separate agent to extend some supervision over this?

Mr. HALES: Mr. Henderson, would you as Auditor General not be in a position to request every department to have an accounts receivable control?

Mr. HENDERSON: My request here, Mr. Hales, in effect, is that someone interest themselves in this to see what could be done about it. Now, I can write to each deputy minister and tell him; however, I was hoping that perhaps the comptroller of the treasury might take some active steps on this. It might be true they do not have the authority now but there surely should be someone

Mr. HALES: Mr. Henderson, can you cite to the committee an example of a department where you, in auditing the books, found it had no accounts receivable control, that you requested it to institute a system and the officials of this department have failed to put this system into effect.

Mr. HENDERSON: No, I have not addressed myself to any of the departments concerned, Mr. Hales. This is a general observation at this stage. As I said, this is the first time we have even shown or put together a summary of the accounts receivable which, in fact, are involved, and made these observations. But, if the point I make commends itself to the members of this committee I perhaps would go into it in rather more depth.

Mr. CARDIFF: If the income tax department went after the defence department the way they go after the farmers in respect of their bookkeeping and that sort of thing this would not be allowed and they would make thousands of dollars here, whereas in the case of farmers they make only hundreds. They go after the farmer because some poor sucker who has not any education cannot make up his income tax. However, there is no excuse for people who are educated along these lines and they should not be allowed to do business this way. That is my opinion, Mr. Chairman, and I am a farmer.

Mr. FORBES: Maybe the farmers can get a loan from this department.

The CHAIRMAN: Are you finished, Mr. Hales?

Mr. HALES: Mr. Henderson, have some of the departments of government an accounts receivable control?

Mr. HENDERSON: Oh, yes indeed, and we are quite satisfied with some of them. I would be correct in singling out, first of all, the taxation division, where they have established controlling accounts. Of course, they are handling a very large volume. But, there are others where they are inconsequential.

Mr. HALES: Would you name us one department which has not an accounts control system?

Mr. HENDERSON: I think comparisons might be invidious at this stage. I see several here but I do not know that I just want to name them individually, Mr. Hales.

Mr. HALES: Well, if you would name one department I think this committee would be well advised to look into this particular system.

Mr. FRANCIS: As an alternative, I agree with Mr. Hales' thinking. But, surely Mr. Bryce's comments speak for themselves. In effect, Mr. Bryce states that this is a valid comment and that treasury board should do something about it. I would hope that this committee would recommend that the treasury board consider looking at all the instances the Auditor General has noted and then make a general recommendation concerning the procedures to be applied.

Mr. CAMERON (*High Park*): Does Mr. Bryce agree with that line of thought, that we suggest to the treasury board, through you, they should institute within these various departments the practice of having internal control on accounts, and that you would feel free to do this.

Mr. BRYCE: I would see no objection to that. I hate to put myself in the place of the committee and say what the committee ought to say to the government. And, I would not like to be unfair to departments and say that I know

of my own knowledge that their accounts are inadequate. But I know of nothing that would controvert the statement of the Auditor General. From the inquiries I have made I have not been able to find evidence that would lead me to think that he is wrong.

Mr. FRANCIS: After that, further comment by this committee is superfluous. Mr. Bryce has indicated that the point is well taken and I am sure treasury board will co-operate in this.

Mr. HENDERSON: That would be satisfactory to me. It will be very helpful.

Mr. CAMERON (*High Park*): We do not want to get you into any difficulties.

Mr. LEBLANC: Does that include the recommendation that the accounts receivable be shown on the balance sheet together with the other recommendations the committee made previously regarding the checking of the accounts receivable or is it only to look after the accounts receivable in other departments to see that they are well taken care of.

Mr. HENDERSON: I have not made a suggestion that they be taken on to the statement of assets and liabilities. That opens up another whole field, much the same as the one Mr. Bryce was describing when he was explaining the national capital commission financial concept to you.

The government keeps its books on a cash basis, not on an accrual basis, and that is why these accounts receivable have to be kept in memorandum form. It would be much more effective if they were right on the books and were on the balance sheet. But, that would be opening up another line of thought which I have not thus far stated under this caption in my report. I am more interested in the internal arrangements in the departments themselves in order to be certain that people who are not responsible for these accounts have some control over them so that if an account, for example, is removed from the file because someone came in and paid the money then this can be cross-checked by someone else. It is the principle of internal financial control.

The CHAIRMAN: Seeing that Mr. Bryce and Mr. Henderson are generally in agreement we might move on before the committee puts them apart too far. We will proceed to item 142 in the 1962 report.

Mr. HENDERSON: This will not take long. The members will recall that this deals with the loans to the town of Oromocto, and this particular paragraph refers to the details given on page 81 in respect of the loans to the town, which we discussed at quite considerable length on July 14 when Mr. Armstrong, the deputy minister of national defence, was present.

You may recall that in view of the situation outlined in paragraph 81 the possibility of early repayment of these loans seems remote, the position as indicate here being that they total \$4,450,000 with only \$423,110 having been repaid to March 31, 1962.

My comment to the committee on July 14 and again here in this note is that with operating costs amounting to \$1,602,000 and revenues totalling only \$81,000, as was the situation in 1961, it seemed unrealistic to treat the loans to the town as an asset item for purposes of the annual statement of assets and liabilities. A similar comment, I might add, was made by my predecessor in his report in 1959 when these loans totalled about \$3 million. I do not know whether Mr. Bryce would care to add anything in respect of this subject but perhaps he would in view of his remarks in respect of the statement on assets and liabilities earlier when we were discussing the investment in the national capital commission.

The CHAIRMAN: Have you any comment in addition to the general statement made by the Auditor General Mr. Bryce?

Mr. BRYCE: Not really, Mr. Chairman. Unfortunately, I was not present at the time this discussion took place when Mr. Armstrong was before this

committee and the evidence has not been printed as yet, or at least I have not received it. I really know a good deal less about this than the members of the committee.

Particularly in regard to the situation, I would not dispute the fact that the town of Oromocto is not in a position to pay large sums on these loans and, of course, this raises the question of how much will eventually be paid in interest or repayment. On the other hand, it would be another matter to write the loans off entirely, because that would then raise the question of just how we are dealing with this town by comparison with other communities. There may well be a valid point in that we should not exaggerate the values in this regard on our books. Nevertheless, we have a problem in deciding the appropriate way to deal with the town. That really involves a separate problem.

Mr. FRANCIS: Is Mr. Bryce saying to us that if we write these loans off there will inevitably be additional demands on the federal treasury?

Mr. BRYCE: I would not want it to be thought that we have given this great gift by writing off these loans, because we are trying to deal in as sensible a way as we can with this community that the federal government has created with the assistance of New Brunswick.

Mr. FRANCIS: Mr. Bryce is apparently recommending that we take this action at this point; is that right?

Mr. BRYCE: I am incapable of making any suggestion at this point because I do not know what the evidence is that the committee received in regard to this subject. I think I would rather leave this situation to the committee to consider in the light of the detailed evidence it has received.

Mr. LEBLANC: Mr. Henderson, is this case more or less similar to the case we just discussed in respect of the National Capital Commission?

Mr. HENDERSON: There is a lot more value behind the National Capital Commission loans, as Mr. Bryce pointed out, and as Mr. Francis emphasized, than there is in respect of the loans made to the town of Oromocto. That is to say, the National Capital Commission has extensive property holdings which it is believed will increase very substantially in value over the years. The finances of the town of Oromocto are obviously in an unhealthy state, as we learned from the evidence of Mr. Armstrong. I am afraid there is not very much one can do about a situation like this, Mr. Chairman. We made reference to it because it was an item having implications to the Department of Finance. We did explore it pretty thoroughly with Mr. Armstrong.

The CHAIRMAN: If, after Mr. Bryce has received the evidence, he wants to make a communication to the committee we may receive such, but until that time I think we should leave this particular item at this point.

Mr. BRYCE: Thank you.

The CHAIRMAN: How do we stand now, Mr. Henderson?

Mr. HENDERSON: We have only four more items to deal with although they are not very long ones.

We marked down paragraph 45 of the 1963 report covering governor general's warrants for discussion with Mr. Bryce because several of the members of the committee I think at the time this was discussed at an evening meeting on June 30 with Dr. Davidson, secretary of the treasury board, felt that they might have several questions to put to Mr. Bryce.

In order to bring the committee up to date, I would sum up the views expressed by saying that the committee was concerned that payments which did not meet the test of being urgently required for the public good had been made and that to a large extent expenditures continued to be made in the same manner as if parliament had provided funds for carrying on governmental services between the sessions. Dr. Davidson informed the committee that in

his opinion section 28 of the Financial Administration Act did not make adequate provision for the carrying on of government service when parliament dissolves without having provided the necessary funds, and the committee endorsed my recommendation that a detailed study be made of the financing problems which result when this happens.

I mentioned to the committee on June 30, that I had had the benefit of a discussion of this subject with Mr. Bryce and he might therefore care to speak to the subject.

Perhaps I am the responsible one, Mr. Bryce, whose suggestion indicated that you might care to add a word today.

The CHAIRMAN: I see Mr. Bryce has his music here.

Mr. BRYCE: Thank you, Mr. Chairman. I have my music but I am not sure that I should play.

Perhaps I can just say that upon reflecting on this matter, and after reading Dr. Davidson's testimony, I did not entirely agree with it, although not in regard to the particular items that are enumerated here but rather in respect of the need for a detailed study or for any basic change in the law. I would be quite happy to explain my thinking in that regard if you wish.

The CHAIRMAN: I think the members of the committee might desire to have your explanation. How do the members of the committee feel in this regard? I think we were quite concerned about this item and it is my impression of the wishes of this committee, if I am interpreting their wishes correctly, that something should be done.

Mr. Bryce, I think probably we should have the benefit of your views in this regard.

Mr. BRYCE: I should like to stress that these are really my own views and not the views of the minister or anyone else particularly in the department. I have indicated that my views differ somewhat from those of Dr. Davidson who is in a position much more directly responsible than I am.

It is my impression that the use of warrants has not been seriously abused by any of the governments during the twenty-five years I have been here, and that the expenditures authorized by warrants would almost certainly have been authorized by the House of Commons if they had come before the committee of supply in the normal course of business. Whether they have all been "urgently required for the public good" is another matter, and a matter of opinion. The law places the power and responsibility for deciding this matter clearly on the minister in charge of such expenditures.

The chief use of warrants during this period—and on several occasions before that, I believe—has been to finance expenditures between the time of dissolution of parliament and the meeting of the new parliament. Warrants were used for this purpose in 1896, 1926, 1940, 1945 and 1958, as well as 1963. I have had the impression that this has been recognized and accepted by many members on both sides of the house for a long time, as well as by the public. The wording of the act does not suggest that this would be the main use of the power it confers, but in fact this is the case and has been recognized to be the case. It was only about six years ago that the wording was changed to make this somewhat more evident than it had been in the preceding version—one of long standing—which started out by reference to an accident happening to a public work. This change was made in 1958 after the most recent previous occasion when warrants were required on a large scale to meet expenditures after dissolution, and I think it was quite evident that parliament had this current problem in mind, although the language used in the debate was guarded. Moreover, a provision was introduced in the law at that time to ensure that the new parliament would consider and sanction such expenditure, by deeming the

amounts of the warrants to be included in the amounts appropriated by parliament in the next act passed for granting supply. It had been customary to ask parliament to approve, after the event, expenditures that had been made by warrant and this change required it—in so far as any parliament can by statute bind a later one.

In accordance with the intention of that parliament, as expressed in subsection (4) of Section 28, this parliament has already considered and approved on July 15 of last year the items covered by these warrants on which the Auditor General has reported. Opportunity was thus afforded to consider the need for any of them, and whether or not they contravened the law. They have been reviewed and sanctioned, in accordance with the earlier intention, and I don't think that any voice was raised against the provisions of the law or the way it was applied in the issue of any particular warrants.

Given this history, it seems to me somewhat less than realistic to suggest that this is a subject on which, by lack of proper attention, the law has been left in an ambiguous state, and that there is need of a detailed study of the subject to prepare an amendment to assure appropriate parliamentary control. After dissolution there is no parliament until the writs are returned for the new one, so we can have no current parliamentary control. The law of 1958, and the customary practice followed before that, provide for whatever review, control and sanction the new parliament chooses to enforce at the time. Those who authorize the expenditures in question and certify that they are required for the public good normally hope and expect to confront that new parliament as a government.

Therefore, I do not feel that a detailed review and basic amendment of the law would warrant a high priority on the time of parliament. There are a few simple things that can be done, and if desired certain of them could be written into the law at the first opportunity. I assume the committee would not wish to deal with such suggestions forthwith, but it might wish to bear them in mind on a future occasion. They might make more effective what is already in the law.

First, it has for years been recognized as most important that all warrants should be published promptly. The law presently requires publication within thirty days and tabling in parliament early in the next session. Bearing in mind the circumstances under which they are frequently used, perhaps they should be required—by law or custom—to be published, as an extra issue of the *Gazette* if need be, within, say, three days. There would then be a better opportunity for prompt scrutiny and any criticism, even in the midst of a campaign.

Secondly, the Auditor General could be requested, possibly even required by law, to report on the issue of warrants within, say, sixty or ninety days of their issue. This report could be requested by the government under Section 71 of the Financial Administration Act. Such a report could then be laid before parliament when it was considering the appropriation act required to sanction the expenditures made under the warrants. The annual report of the audit of the accounts will in almost all cases be too late to be of use for this one occasion when Parliament considers the warrants. Whether the house really needs or wants such a report one must leave to honourable members to judge.

In the last analysis, however, the effectiveness of any system for controlling expenditures made under warrants will depend on the willingness of the members of the house to devote the time and effort to deal with them when they come along in the supply bill. It is not for a civil servant to prescribe what parliament ought to do in this regard, nor what priority it should give to this kind of problem by comparison with others. Basically, however, I believe that the main problems in the use of warrants, and in controlling their use, are ministerial and parliamentary problems rather than legal and bureaucratic matters.

I have spoken so far in relation to the question of the need for a special study on the substantial revision of Section 28 of the act, on which I differ from other witnesses. Let me say that I feel the Auditor General has quite properly drawn attention to a number of cases where it appears that ministers have been inadequately advised in coming to a conclusion that the sums in question were urgently required—notably items 1, 2, 3 and 4 on page 18. I believe that the practice was changed on items of this character in the subsequent warrants issued. On the other hand, I do not feel that their inclusion caused any wasteful or improper use of public funds, even though their authorization in this way may have been open to question.

Perhaps I should add one minor legal point. The Auditor General says that the subsection of the law providing for the issue of warrants does not provide for any control of commitments. It should be noticed, however, that the very next subsection below it does provide for this control indirectly by saying that warrants shall be deemed to be appropriations, and this brings into effect in regard to them the sections of the act relating to the control of commitments. I would think there is more of a problem involved in the government having adequate authority to enter into commitments in the earlier months of a fiscal year without having to issue a warrant to cover the year as a whole, in order to meet the requirements of Section 30 of the Financial Administration Act.

If members of the committee wish to study the history of the law on this matter, and the use made of it, I commend to them the excellent scholarly article on the subject by Mr. Balls, the comptroller of the treasury, which appears in the *Canadian Tax Journal* for May and June 1963.

I wonder if I might conclude, Mr. Chairman, by drawing to the attention of the committee the old and well-known opinion given on the use of warrants by Sir Oliver Mowatt, as minister of justice, in 1896. It is most conveniently found in paragraph 305 of the latest issue of the Audit Office Guide. That is a very brief paragraph, and possibly I might be permitted to read it in full:

305. Subsection (1). Words that may present an audit problem are 'any other matter'. In 1896 parliament was automatically dissolved by reason of five years having elapsed since a general election. Supply for the new year (then starting on 1 July) had not been granted and after the election a question was whether warrants could issue to pay civil service salaries. The new Prime Minister requested an opinion from the Minister of Justice who replied that:

I think that the payment of the employees mentioned in your letter is 'urgently and immediately required' for the public good, within the meaning of the said enactment, and that, under the circumstances which have occurred, and the consequent present condition of public affairs, the governor in council may properly on the reports mentioned, order a special warrant to be prepared to be signed by the Governor General, for the issue of the amount estimated to be required.

This opinion has since been relied upon for the issue of special warrants for all administrative services during general elections called before full Supply for the year has been granted.

The CHAIRMAN: Have you a question, Mr. Francis, or has it already been answered by Mr. Bryce's comments?

Mr. FRANCIS: I have no immediate questions.

The CHAIRMAN: Mr. Rock?

Mr. ROCK: How much power has the comptroller of the treasury? I mean can the treasury be made to approve an account, or does it approve the account of the comptroller of the treasury?

Here we have the Auditor General bringing out a big report and in this report there is a lot of ambiguity on many of the departments regarding whether they have the right to make certain expenditures, and things like this. And yet, all this, I believe, goes to the comptroller of the treasury who is making the errors, if there are any errors. The point is that we have a comptroller of the treasury. How much power has this man to say "No" to these expenditures when he feels that these expenditures are illegal, in a sense?

The CHAIRMAN: Do you want Mr. Bryce to answer that as the former secretary of the treasury board?

Mr. BRYCE: I think, sir, the comptroller has to see that there is an appropriation for cheques that are to be issued, and this is one of his statutory duties, just as the one that I mentioned about seeing that money is available before a commitment is made. However, in the case of a Governor General's warrant, once he has received that warrant it is defined as an appropriation, and he cannot look beyond that to say whether the minister is exercising his proper judgment in holding that these are payments for the public good. Once the Governor General has approved that warrant, the comptroller will not look behind it and say that the governor general made a mistake.

Mr. ROCK: I do not want to restrict it only to the governor general's warrants.

Mr. BRYCE: I was applying it there. This is where he had some role in this particular case. The Auditor General is drawing attention to six or seven cases here where he thinks there is some question on whether it is possible to say properly that these were urgently required in the public good. However, I take it he is not questioning the legality of these but rather the judgment of the ministers in certifying that these were urgently required in the public good.

Mr. ROCK: I do not want to restrict this question to this item here. I would like to go beyond that to many other occasions that have come up in the report.

Mr. FRANCIS: We have had a very fundamental statement from Mr. Bryce and we have had an opinion which is, on the face of it, contrary to Mr. Davidson's opinion at the previous sitting of this committee. I wonder if this would be an appropriate time for members of the committee to adjourn so as to consider the statements before them and perhaps to possibly, at some future time, have the opportunity of asking Mr. Bryce for comments in the light of the record. I would personally welcome an opportunity to go back and do some homework.

The CHAIRMAN: There are, before we adjourn if possible, two small items left which I do not think will take very long and which would conclude everything which Mr. Bryce is concerned with. With regard to the questions which Mr. Rock has raised, I think that later on, during the consideration of the 1963 report, we could deal with them. This does not directly deal with the issue to which Mr. Bryce is directing his attention but it can come up for consideration at a further point.

Mr. FRANCIS: I hope we will have a further opportunity to come back and ask Mr. Bryce some questions on this point. He has made a careful statement which is on our record, and I for one would like an opportunity to study it in a little more detail.

The CHAIRMAN: Perhaps we could go on with the last two items.

Mr. HENDERSON: Yes, Mr. Chairman.

Paragraph 60 reads as follows:

60. *Overpayment to province under the Federal-Provincial Tax-Sharing Arrangements Act.* The estimated population figures used in the calculations of amounts payable to the provinces under the Federal-

Provincial Tax-Sharing Arrangements Act, 1956, c. 29, were subject to correction when the population figures resulting from the taking of a census became available. Accordingly, when the census figures for 1961 became available in 1962, the payments made to the provinces in the years 1958 to 1962 were recalculated resulting in additional payments being made to eight of the provinces and establishing that overpayments had been made to the other two, as follows: British Columbia, \$4,818,000; and Ontario, \$177,000.

The agreements with the provinces under the act provide for immediate repayment of any amounts overpaid, and the overpayment to Ontario was recovered from the payment due to that province in March 1963. The province of British Columbia maintained that the amount of \$4,818,000 was not due immediately since the succession duty rentals have not been finally determined. An amount of \$200,000 was withheld from a payment to that province in March 1963, leaving a balance of \$4,618,000 owing at March 31, 1963. Subsequently the province agreed to monthly deductions of \$175,000 which are now being made from amounts payable to the province. At the time of the signing of the 1957-62 agreements, the provinces had been given the option of receiving a succession duty rental on the basis of the one-year yield of these taxes rather than on the basis of the three-year average as specified in the act, provided they made their choice known at the beginning of the tax agreement period. British Columbia and two other provinces requested the one-year option. A recalculation on the basis of the one-year option is expected to result in an increase in the succession duty rentals payable to British Columbia for the fiscal years 1957-58 and 1958-59, and these will be applied to the outstanding balance of the claim mentioned above. The department expects that the application of these amounts together with the monthly deduction of \$175,000 now being made will extinguish the debt in full by mid-1964.

Paragraph 60 of the 1963 report deals with overpayment to a province under the federal-provincial tax sharing agreement. This note was stood over pending Mr. Bryce's appearance before the committee. It describes how overpayments were made to the provinces of British Columbia and Ontario under the Federal Provincial Tax-Sharing Arrangements Act. The overpayment to Ontario was recovered but the province of British Columbia maintained that the overpayment, in its case of \$4,818,000, was not due immediately since the succession duty rentals had not been finally determined. This appears to have led to a recalculation of the succession duty rentals payable to British Columbia for the fiscal years 1957-58 and 1958-59, and these were to be applied to the outstanding balance of the claim. The Department of Finance expected that the application of these amounts, together with the monthly deduction of \$175,000 now being made, would extinguish the debt in full by mid-1964. However, the Federal-Provincial Tax-Sharing Arrangements Act has not been amended to permit the payment of succession duty rental on the optional basis of the one year yield of these taxes, rather than on the three year average as specified in the act, and a balance of \$1,818,000 remained to be collected at July 20, 1964.

I do not know whether Mr. Bryce would have anything further to add to that. That is right up to date, Mr. Chairman.

Mr. BRYCE: Mr. Chairman, it seems to be a little more up to date than the figures I have as of June 30, but the difference is a small one, and there may well have been a payment applied since June 30. The change in regard to the succession duties is in the bill before the house now on the fiscal revision. We estimate that this change will mean an additional \$367,000 for British Columbia in respect of the year 1957-58, and an additional \$711,000 for 1958-59, a total of

something over a million dollars. This will be applied to the amounts still outstanding. Very shortly we will also be able to calculate the difference for 1959-60, and that further adjustment will probably be sufficient to offset the remaining amount of liability. It is just a matter of our getting the necessary information in regard to the assessment of estates to finish these calculations and make the collection once parliament passes the bill that will authorize this change in basis.

Mr. WINCH: Next time I see our premier in British Columbia I will tell him to pay his bills; otherwise he will not get more credit.

Mr. BRYCE: If I may use that as a point of departure, in all fairness I must warn the committee that in future years we have to expect more of this sort of thing, not less. These arrangements with the provinces are now very substantial, very complicated, and we have to make under the law, various forecasts of what the payments will be, and make interim payments based on those forecasts. We are finding that frequently these forecasts are wrong and we have substantial amounts to recover from the provinces, so I anticipate that we will be appearing before you on a number of occasions on items of this nature.

Mr. WINCH: Do not let Mr. Bennett say he is broke because he has one set of books saying he does not owe any money at all.

Mr. FRANCIS: Does the Auditor General have any specific remarks to make on this point?

Mr. HENDERSON: No.

The CHAIRMAN: Paragraph 61.

61. *Indirect compensation to chartered banks.* In paragraph 68 of last year's report reference was made to an arrangement between the Department of Finance and the Canadian Bankers' Association whereby the banks pay interest only on the amount by which the government's minimum weekly balances on deposit are in excess of an aggregate of \$100 million. The arrangement was continued throughout the year 1962-63 and interest at a rate equivalent to the weekly average accepted treasury bill tender rate for three months treasury bills, less 10 per cent of that rate, and amounting to \$14,395,000 was received from the banks. The corresponding amounts of interest received in the two previous years were \$6,394,000 in 1961-62 and \$6,645,000 in 1960-61. As was pointed out last year, the maintenance of substantial balances with the banks, including \$100 million interest-free, compensates them indirectly for handling cheques or other instruments payable by or to the receiver general, in violation of the requirement of subsection (1) of section 93 of the Bank Act, 1953-54, c. 48, which reads as follows:

No bank shall make a charge for cashing a cheque or other instrument drawn on the receiver general or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the consolidated revenue fund, or in respect of any cheque or other instrument drawn in favour of the receiver general, the government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the receiver general.

If the banks are to be compensated for services provided to the crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

Mr. HENDERSON: Paragraph 61 deals with my comment on indirect compensation to chartered banks. This matter was originally discussed on December

16 last when Mr. Bryce appeared before the committee and the members may recall it was discussed in considerable detail, and this in turn led to comment by the committee in its fourth report 1963, tabled on December 19, 1963. The committee stated that when considering the question whether or not the balances maintained by the government of Canada with the chartered banks interest-free to the level of \$100 million constituted indirect remuneration, it was assisted in its deliberations by the deputy minister of finance who outlined the arrangements which had been in effect since January 1, 1947, whereby the banks pay interest to the government of Canada on the amount by which minimum weekly balances are in excess of this sum.

The committee then reported its agreement with the Auditor General that this arrangement does constitute indirect compensation to the chartered banks and may be construed as being contrary to the intent of section 93 (1) of the Bank Act. The committee stated it believed that if the banks are to be compensated for services provided to the crown, consideration should be given to the most equitable manner in which this might be done with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

We discussed this matter again on May 26, when I submitted my follow-up report on the recommendations made by the committee in its fourth report. I advised the committee at that time that notice had been given by the Minister of Finance in the House of Commons on April 13, 1964, concerning the introduction of a measure to amend the Bank Act to extend by one year to July 1, 1965, the authority for the banks to which that act applied to carry on business, and in a statement to the House of Commons on May 6, 1964, the minister had said it was his hope that a bill relating to the decennial revision would be presented in the late fall of 1964.

That is where the matter stands at the present time, and I do not know whether Mr. Bryce would care to speak to it further, or whether members of the committee have any additional questions at this time.

Mr. BRYCE: Mr. Chairman, of course, we have noted this matter and I have drawn it to the minister's attention in connection with the revision of the Bank Act on which we are working now in the department and on which the minister is working. It would be helpful to be able to confirm what the Auditor General said last December, as reported on page 304 of the evidence, where I take it he did not criticize the substance of the arrangement and does not consider the present arrangement as wasteful, but as slightly illegal.

The CHAIRMAN: I think the suggestion made is that we should legitimize it. Are there any comments on this item under consideration?

This leaves us with the last item, paragraph 110, which reads:

110. *Inactive loans and investments.* The \$94,824,000 shown for this item in the Statement at March 31, 1963, unchanged from the two previous years, comprised the following balances:

Loans to China, in 1946, under the Export Credits Insurance Act	\$49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,854,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China)	14,470,000
Loan to province of Saskatchewan, in 1908, for the purchase of seed grain	74,000

\$94,824,000

Mr. HENDERSON: You may recall we discussed this matter in the committee on June 16, 1964, dealing with paragraph 127 of the 1962 report at which time several members asked questions with regard to why inactive loans and investments of this character continue to be carried as assets in the statement of assets and liabilities. It was agreed that we might bring this reference on page 71 of my 1963 report to the attention of the committee today while Mr. Bryce is present.

Mr. BRYCE: Mr. Chairman, if I might be quite succinct on this I could say it mainly indicates that we have not given up hope on any of these. I would not want to discuss Canada's international loans in any detail. We still believe there are opportunities for negotiating some recovery on these.

Mr. FRANCIS: Mr. Chairman, in the interest of confederation, I would like to suggest that the loan to the province of Saskatchewan in 1908 for the purchase of seed grain be written off.

Mr. BRYCE: I was going to add that that is the one item on which I could not get a satisfactory explanation until I came into the room and was handed some papers in respect of it. I have not been able to digest them adequately in order to present them to the committee. If we do not write it off in the meantime perhaps we can take it up next year.

Mr. SOUTHAM: May we thank Mr. Francis for his very benevolent suggestion.

Mr. FORBES: The government is waiting for the people of Saskatchewan to elect a government which will honour its debts.

The CHAIRMAN: I do not see any particular great interest at this time on the part of committee members, so I want to extend my thanks to Mr. Bryce for staying here this long. I am particularly grateful to members of the committee for their efforts expended in struggling through this.

I would remind you that we are going to have an in camera meeting at 3.30 tomorrow to consider our fourth interim report. The steering committee will meet at 3 o'clock here and the committee will follow at 3.30 in camera, in the hopes that we can complete our report and have it ready for presentation to the house.

APPENDIX

Report to the Public Accounts Committee by
The Minister of Finance on the Exchange Fund Account

The Public Accounts Committee in December 1963 requested me to present a Report on the Exchange Fund Account. The purpose of this Report was to provide explanations originally requested by the Public Accounts Committee in 1961. The following paragraphs appeared in the final report of the Public Accounts Committee (July 1, 1961). These refer to comments made in Reports of the Auditor General regarding the composition of the surplus account of the Exchange Fund Account. They also contain a request by the Public Accounts Committee to the Minister of Finance to comment on the desirability of writing off the surplus and also of transferring annually to the Consolidated Revenue Fund the various amounts which have been applied to Surplus in the past.

77. The Auditor General's Report explained (in paragraph 89) that the advances to this Account at March 31, 1960 were included in the Statement of Assets and Liabilities at their full value of \$1,960 million, although the value of the investments from advances was only \$1,746 million. To the extent of \$78 million this unrecorded deficiency of \$214 million was simply the exchange loss arising from the year-end valuation of United States dollar holdings at the ruling exchange rate. However, the remaining \$136 million represented the net loss on dealings in gold and foreign securities and on revaluations of gold and currencies, since the establishment of the Exchange Fund Account in 1935.

78. Since the \$136 million amount referred to in the preceding paragraph represents the loss realized from exchange management operations over the period since the establishment of the Account, the Committee recommends,

that the Minister of Finance be requested to submit to the Committee at the next Session a report dealing with the desirability of writing off the amount in the accounts, with appropriate parliamentary authority, for example against the reserve for losses on realization of assets. The importance of the problem is such that your Committee believes that at the next Session of Parliament it should give special attention to the problem, including the question of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and re-evaluation of holdings.

A draft report was prepared prior to the devaluation of the Canadian dollar in 1962 which is out of date as a result of this development. In the hearings of the Public Accounts Committee in December 1963, the Deputy Minister of Finance said that he would like to see a report prepared which would be pertinent to the current situation and which would contain additional information. The Committee agreed, at the suggestion of the Deputy Minister, to defer consideration of the suggestions of the 1961 Committee until the next session at which time an up-to-date report would be available.

Before dealing with the request of the 1961 Committee, it is proposed to give a brief history of the Exchange Fund Account, and to analyse the movements in the surplus account since the Fund became operative. An understanding of the composition of this account will aid the Committee in approaching the problem. Finally, the suggestion in paragraph 78 of the report of the 1961 Committee requesting comments on the desirability of writing off the surplus account will be dealt with.

The Exchange Fund Act of 1935 established a special account, called the Exchange Fund Account, at the Bank of Canada to be held in the name of the Minister of Finance. The purpose of the Act was to create a fund which would be available "to aid in the control and protection of the external value of the Canadian monetary unit". The profit resulting from the revaluation of the gold holdings of the Bank of Canada from the statutory price of \$20.67 per fine ounce to the current market price was to be credited to the special account. The account could be invested in gold or foreign exchange upon the issue of an Order-in-Council under the Exchange Fund Act. Such an Order was issued in September 1939. A second Order on the same day provided for the institution of foreign exchange control and established the Foreign Exchange Control Board to administer this control as well as to operate the Exchange Fund. At the same time the exchange rate was fixed at \$1.00 U.S. = \$1.10 Can. The gold holdings of the Bank of Canada had been revalued from week to week since 1935 and when the Exchange Fund Act became operative, the accumulated profit was \$83.9 million (Canadian). This amount constituted the original capital resources of the Exchange Fund.

On May 1, 1940, \$325.0 million (Canadian) was advanced to the Fund from the Consolidated Revenue Fund under the Exchange Fund Order, 1940, to enable the Foreign Exchange Control Board to purchase the gold reserve of the Bank of Canada and foreign exchange held by residents of Canada. This second portion of the account, financed in the form of advances from the Consolidated Revenue Fund, fluctuated with the level of holdings of the Fund, while the original capital remained intact. This situation remained until the revaluation in July, 1946 when the Canadian dollar was raised to a rate of \$1.00 U.S. = \$1.00 Can., and consequently the value of the gold and U.S. dollar holdings of the Fund declined in terms of Canadian dollars. The resulting write-down was applied to the whole of the original capital and the surplus which had accumulated since 1939. Subsequently, the capital account represented the total amount owing to the Consolidated Revenue Fund in the form of advances. In place of the surplus there was now a small deficit shown.

In 1946, the Exchange Fund Act of 1935 was replaced by the Foreign Exchange Control Act. The purpose of this new Act was to put exchange control on a statutory basis and expand the powers in the Exchange Fund Act. The major portion of the new Act dealt with the rules and regulations of foreign exchange control, and the powers of the Foreign Exchange Control Board.

In September 1949, following devaluation by a number of other countries, Canada devalued her currency to \$1.00 U.S. = \$1.10 Can. and the resulting write-up of the Canadian dollar value of the assets of the Exchange Fund wiped out the accumulated deficit in the Exchange Fund and gave rise to a surplus.

In September 1950, because of a substantial inflow of capital—to a large extent speculative—and the general economic situation of Canada, it was decided to allow the exchange rate to be determined by the market forces of supply and demand. This policy continued to May 2, 1962 when the exchange rate was fixed at \$1.00 U.S. = \$1.08108 Can. During the period of the floating rate the Canadian dollar fluctuated in a wide range reaching a high of \$1.00 U.S. = \$.94 7/32 Can. in 1957.

In 1952, following the termination of foreign exchange control in 1951, the Currency, Mint and Exchange Fund Act was passed. The section dealing with the Exchange Fund provided for the continuation of the Account as established in the Act of 1935 and continued in 1946. It also changed slightly that portion of the Act of 1946 which dealt with the Exchange Fund Account. The main purpose of the Exchange Fund, however, remained what it was intended to be in the Act of 1935.

Turning now to consider the history of the surplus or deficit shown in the Exchange Fund Account from the beginning, it is first necessary to observe that, while the Account has been maintained with fundamentally the same accounting structure since 1939, the means of dealing with profits and losses have been changed twice since that time. The effect of these changes has been reflected in the surplus or deficit shown in the Account. The treatment of earnings and surplus each year is summarized in tables 1, 2 and 3.

Table 1 shows that from 1939 to the end of 1946, the total excess of revenue over expenditure was credited to a reserve to be used in case of a revaluation of the Canadian dollar. When the value of the Canadian dollar was raised to \$1.00 U.S. = \$1.00 Can. in 1946, it became necessary to revalue the gold and U.S. dollar and sterling holdings of the Exchange Fund. The resulting write-down or unrealized loss of Can. \$163.7 million was applied against the original capital (\$83.9 million) and the accumulated reserve (\$51.0 million) leaving a deficit of Can. \$28.8 million.

Table 2 reflects the change in procedure which was provided for in the Foreign Exchange Control Act of 1946. All earnings were now to be paid into the Consolidated Revenue Fund. During the period from 1939 to 1950, the main earnings of the Fund were derived from the margin established by the Foreign Exchange Control Board between its official buying and selling rates for foreign exchange and from interest earned on investments. Against these earnings the Fund charged expenses for interest paid on advances and for commission paid to authorized dealers. From 1939 through to 1946 the Foreign Exchange Control Board charged its general operating expenses to profit and loss. These included such items as salaries, communications, printing and rental of premises. Since 1947 these operating expenses have been absorbed by the Bank of Canada which has operated the Fund on behalf of the Minister of Finance. It would be difficult to separate these modest expenses from those applicable to the Bank's own operations.

When the floating exchange rate was adopted in September 1950, the chartered banks were permitted to resume dealings in foreign exchange as principals and the Board no longer maintained fixed buying and selling rates nor paid commissions to dealers. The major items of earnings and expenses thereafter were interest earned and paid. The total earnings of the Exchange Fund, including interest earned on investments, were paid to the Consolidated Revenue Fund in accordance with the Foreign Exchange Control Act. Advances to the Exchange Fund were used to finance the Fund's holdings of U.S. dollar investments and gold. Since only the investments provided any return, the Fund would be unable to pay interest at going rates on the whole of its advances. Accordingly, within the powers granted by the Act, it was decided that no interest should be charged on advances but that the net earnings of the Fund should be transferred to the Consolidated Revenue Fund.

The devaluation in 1949 increased the Canadian dollar value of the gold and U.S. dollar holdings of the Fund by \$75.3 million. This "profit" was applied to the Deficit Account at the end of that year producing a Surplus of \$46.5 million. Following September 1950 when the Canadian dollar was allowed to fluctuate, the Surplus/Deficit Account underwent large fluctuations depending on the year-end values of the gold and foreign exchange holdings which were valued at market prices. This continued until May 2, 1962, when a new par value for the Canadian dollar was established. As the rate is permitted to move only within 1% of the par value, much smaller fluctuations in the amount of the Surplus (or Deficit) Account take place when a par value is in effect. On December 31, 1963, the balance in the Surplus Account was \$30.3 million.

Table 3 covers the period since 1951. No interest has been paid on advances during this period and earnings from investments have been paid into the Consolidated Revenue Fund as the law stipulates. Since the end of foreign

exchange control the Exchange Fund has entered the market to buy and sell exchange from time to time. It makes small profits, or occasional losses, on such transactions. From time to time the Exchange Fund sells securities or gold at a price differing slightly from the Fund's book value for the asset in question and these differences are applied to the Surplus Account. However, the main factor contributing to the fluctuations in the Surplus (Deficit) Account has been the year-end revaluation of gold and foreign exchange arising from changes in the exchange rate for the Canadian dollar. This profit or loss is computed by comparing the value of the holdings at the beginning of the year with the value at the end of the year, making allowances for the net profit or loss on the change in the holdings over the year.

The following is a summary of the disposition of the major elements of profit and loss during the three periods.

	Total Earnings Before Payments to C.R.F.	To Consolidated Revenue Fund				To Surplus
		To Surplus	Earnings From Operations	Interest Payments	Earnings on Investments	Profit or (Loss) from Revaluations
(in millions of dollars)						
1939-46....	90.6	51.0	—	39.6	—	(163.7)
1947-50....	60.1	—	35.2	24.9	—	(15.0)
1951-63....	327.7	15.1	—	—	312.6	59.0 ⁽¹⁾
Total.....	478.4	66.1	35.2	64.5	312.6	(119.7)
				↓		
				412.3		

(1) Includes net profit of \$7.1 million from unmatched purchases and sales.

The cumulative net loss on periodic changes in the value of foreign currency holdings has been charged to Surplus. This figure has displayed wide fluctuations in amount and has been the major factor in the large swings in the balance of the Surplus (or Deficit) Account. Of the sixteen year-end revaluations that have taken place, ten have been for amounts in excess of \$50 million, ranging from a loss of \$163.7 million in 1946 to a profit of \$84.1 million in 1961. The highest deficit shown in the Account at a year-end was \$224.0 million in 1959.

The following is a summary of total changes in the Surplus Account from 1939 to December 31, 1963.

(in millions of dollars)

Original capital acquired from the Bank of Canada in 1939.....	\$ 83.9			
<i>Add:</i> Net increases from profits or losses on operations and interest earned.....				
Gold and security operations.....	\$ 15.7			
Exchange operations.....	115.3			
Interest earned on investments.....	347.4			
		\$478.4		
<i>Less:</i> Payments to the Consolidated Revenue Fund				
Interest on advances (1940-1950).....	64.5			
Net profits including interest earned (1947-1950).....	35.2			
Interest earned on investments (1951-1963).....	312.6	412.3	66.1	
			\$150.0	
<i>Deduct:</i>				
Net deficit from year-end revaluations of gold and currency holdings	126.8			
<i>Less:</i> Net annual valuation adjustment on unmatched purchases or sales of exchange.....		7.1	119.7	
Surplus Account credit balance at December 31, 1963.....			\$ 30.3	

It remains to deal with the request of the Committee for comment on the desirability of writing off the Deficit or Surplus and of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and revaluation of holdings.

It is clear from the above description that the balance in the surplus account at December 31, 1963 results from a variety of causes, including the several revaluations as well as trading operations. I propose that this be left in the Fund, where it may serve as a modest reserve against any possible future revaluation losses.

I believe that in future it is desirable to distinguish between the profits and losses arising from trading and investment on the one hand and profits and losses arising from revaluations. I propose that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year should be transferred to the Consolidated Revenue Fund.

I would not propose that any decision now be taken to transfer to the Consolidated Revenue Fund any future profits or losses at our year-ends arising from changes in exchange rates. We now have a formal par value for the Canadian dollar established by law. In our accounts we now value our foreign exchange and gold holdings at that par value (with suitable allowance for shipping costs on gold). This will give more stability to the accounting valuations. Any change in the par value is a hypothetical contingency which does not require action now. To require by law that any profits or losses arising from changes in the year-end valuations of our reserves be brought into budgetary revenues or expenditures immediately thereafter could have led at times in the past to serious distortions of our budgetary accounts and caused undesirable confusion and uncertainty as to the state of the budget. We can and do take into our accounts the changes in value of the government's foreign cash balances that are held for current operating purposes, but these are significantly smaller and are required for immediate use. The exchange reserves are held for national economic purposes and can properly be treated in a different manner.

Authority will be required from Parliament to recoup the Exchange Fund for any deficit in accordance with the course of action I have proposed and some change in the law is desirable to make clear the authority to transfer profits or surpluses to the Consolidated Revenue Fund.

Ottawa, July 16, 1964.

TABLE 1

	Major Elements in Profit and Loss					Contribution to Surplus from Revaluation ^{1, 2}	Value of U.S. \$ at year-end	Reserve Account	Capital
	Net from Exchange Operations	Net from Gold Operations	Net from Security Operations	Interest Earned on Investments	Interest paid to C.R.F. on Advances	Total Earnings to Surplus ^{1, 2}			
1940.....	4.5	0.1	—	—	1.6	8.9	1.10	8.9	83.9
1941.....	12.4	—	—	3.2	5.0	9.3	1.10	18.2	83.9
1942.....	13.0	(0.1)	0.7	3.0	4.3	11.2	1.10	29.4	83.9
1943.....	13.2	0.3	—	0.8	4.0	9.4	1.10	38.8	83.9
1944.....	12.3	0.1	—	1.4	6.4	6.7	1.10	45.5	83.9
1945.....	10.0	0.3	—	2.7	8.5	3.8	1.10	49.3	83.9
1946.....	8.0	0.1	0.1	3.8	9.8	1.7	(163.7)	(28.8)	—
					39.6	51.0	(163.7)		

¹ Earnings shown for 1940 apply only for the period from July 1, 1940. Included in the figure of "Total Earnings to Surplus" is \$8.4 million which applies to the period from September 16, 1939 to June 29, 1940.

² There were certain expenses charged annually to Profit and Loss not included in any of the sub-headings in the above table which amounted to \$5.7 million for the period covered. They are included in these figures for total earnings to surplus.

TABLE 2

	Major Elements in Profit and Loss				Total Earnings paid to C.R.F.	Contribution to Surplus or Deficit from Revaluation	Value of U.S. \$ at year-end	Accumulated Surplus or Deficit
	Net from Exchange Operations	Net from Gold Operations	Net from Security Operations	Interest earned on Investments	Interest paid to C.R.F. on Advances			
1947.....	13.3	0.4	0.2	2.0	5.1	10.8	1.00	(28.8)
1948.....	10.2	—	—	3.2	4.8	8.6	1.00	(28.8)
1949.....	9.8	0.1	—	6.1	7.6	8.4	1.10	46.5
1950.....	6.1	0.2	—	8.5	7.4	7.4	1.0594	(43.8)
					24.9	35.2	(15.0)	

TABLE 3

Major Elements in Profit and Loss				Disposition of Earnings		Contribution to Surplus		Value of U.S. \$ at year-end	Accumulated Surplus or (Deficit)
(1) Net from Exchange Operations	(2) Net from Gold Operations	(3) Net from Security Operations	(4) Interest Earned on Investments	Total Earnings (1) (2) (3) (4)	Contribution to Surplus	Payments to C.R.F.	From Revaluation	From Unmatched Purchases and Sales	
1951	3.3	(0.2)	12.6	16.2	3.6	12.6	(33.9)	(1.5)	1.0119 (125.6)
1952	0.4	0.1	14.8	15.4	0.6	14.8	(72.6)	(1.6)	.9703 (199.2)
1953	0.5	0.1	16.3	16.9	0.6	16.3	6.1	1.3	.9737 (191.2)
1954	0.5	0.3	10.9	11.7	0.8	10.9	(14.0)	(1.0)	.9659 (205.5)
1955	(0.1)	0.7	10.8	11.4	0.6	10.8	59.9	2.2	.9991 (142.8)
1956	0.1	0.4	17.4	17.9	0.5	17.4	(71.3)	(1.4)	.9597 (214.9)
1957	0.4	0.4	22.9	23.7	0.8	22.9	43.7	1.3	.9841 (169.2)
1958	0.4	1.1	18.6	20.1	1.5	18.6	(35.3)	(0.7)	.9644 (203.6)
1959	0.3	1.4	25.5	27.2	1.7	25.5	(22.3)	0.2	.9522 (224.0)
1960	(0.1)	2.2	32.5	34.9	2.4	32.5	79.6	1.0	.9966 (141.0)
1961	3.5	0.5	32.6	37.1	3.5	32.6	84.1	6.5	1.0434 (45.9)
1962	(9.00)	2.1	35.2	31.15	(4.05)	35.2	68.1	0.25	1.0772 18.4
1963	1.65	(0.1)	62.59	64.14	1.55	62.59	9.77	0.55	1.08108 30.3
					15.1	312.69	51.87	7.10	

TABLE 4
 HOLDINGS OF GOLD AND U.S. DOLLARS
 (in millions of U.S. Dollars)
 - at December 31st -

December 31	U.S. \$	Gold	Total
1940.....	172.8	136.5	309.3
1941.....	28.2	135.9	164.1
1942.....	87.9	154.9	242.8
1943.....	349.0	224.4	573.4
1944.....	506.3	293.9	800.2
1945.....	922.1	353.9	1,276.0
1946.....	686.3	536.0	1,222.3
1947.....	171.8	286.6	458.4
1948.....	574.5	401.3	975.8
1949.....	594.1	486.4	1,080.5
1950.....	931.8	580.0	1,511.8
1951.....	879.4	841.7	1,721.1
1952.....	961.0	885.0	1,846.0
1953.....	800.2	986.1	1,786.3
1954.....	833.1	1,072.7	1,905.8
1955.....	677.2	1,133.9	1,811.1
1956.....	783.7	1,103.3	1,887.0
1957.....	691.5	1,100.3	1,791.8
1958.....	794.1	1,078.1	1,872.2
1959.....	873.6	959.6	1,833.2
1960.....	909.0	885.3	1,794.3
1961.....	1,081.6	946.2	2,027.8
1962.....	1,802.2	708.5	2,510.7
1963.....	1,755.8	817.2	2,573.0

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

Public Accounts, Volumes I, II and III (1962 and 1963)

Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, JULY 23, 1964

INCLUDING THIRD REPORT TO THE HOUSE

WITNESSES:

From the Department of Public Works: Messrs. Lucien Lalonde, Deputy Minister; G. B. Williams, Assistant Deputy Minister, (Technical); and L. P. Boyle, Financial Adviser; and Mr. A. M. Henderson, Auditor General of Canada; and Mr. D. A. Smith, of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Grégoire,
Gray,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,
Pilon,

Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

REPORT TO THE HOUSE

FRIDAY, July 24, 1964.

The Standing Committee on Public Accounts has the honour to present **its**

THIRD REPORT

Your Committee recommends that it be empowered to engage an accountant and clerical personnel, as it may deem necessary, for the purpose of its inquiry and relevant investigations arising from its study of the Public Accounts.

Respectfully submitted,

G. W. BALDWIN,
Chairman.

(Note—This Report was concurred in by the House on Monday, July 27.)

MINUTES OF PROCEEDINGS

WEDNESDAY, July 22, 1964.
(27)

The Standing Committee on Public Accounts met this day, *in camera*, at 3.40 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Cardiff, Fane, Forbes, Frenette, Gendron, Gray, Hales, Harkness, Leblanc, Legault, McLean (*Charlotte*), Nowlan, Pilon, Ryan, Southam, Stefanson, Stenson, Tardif, Tucker, Wahn, Whelan and Winch (25).

The Committee proceeded to the consideration of its "draft" interim report to the House, and following its consideration and amendment, it was adopted. The Chairman was ordered to present it to the House as the Committee's Fourth Report.

At 5.30 p.m., the Committee adjourned until 9.30 a.m., Thursday, July 23, 1964.

Note: For Fourth Report, see later issue of Proceedings.

THURSDAY, July 23, 1964.
(28)

The Standing Committee on Public Accounts met this day at 9.45 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Francis, Frenette, Hales, Harkness, Leblanc, Legault, Mandziuk, McLean (*Charlotte*), Rock, Ryan, Southam, Stefanson, Stenson, Tardif, Wahn, Whelan and Winch (22).

In attendance: From the Department of Public Works: Mr. Lucien Lalonde, Deputy Minister; Mr. G. B. Williams, Assistant Deputy Minister (Technical); and Mr. L. P. Boyle, Financial Adviser. And Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Smith and Laroche of the Auditor General's office.

The Chairman tabled the 1962 and 1963 long form reports of the Auditor General with respect to Canada Council, which will be considered by the Committee on July 28th. Copies of these reports were distributed to the members.

Mr. Baldwin announced the membership of the Subcommittee on "Form of Public Accounts" as follows: Mr. Ryan, Chairman, and Messrs. Prittie, Southam, Smith, Pilon, Cameron (*High Park*) and Rondeau.

The Chairman also announced the membership of the Subcommittee inquiring into the sale of surplus equipment of the Department of National Defence by Crown Assets Disposal Corporation as follows: Mr. Tardif, Chairman, and Messrs. Hales, Winch, Côté (*Chicoutimi*) and Francis.

The Chairman reported as the first recommendation of the Subcommittee on Agenda and Procedure that the Committee seek permission to be empowered

to engage an accountant and clerical personnel for the purpose of its inquiry and relevant investigations arising from its study of Public Accounts. The Chairman noted that this was conditional upon discussions with the Treasury Board.

On motion of Mr. Winch, seconded by Mr. Wahn,

Resolved,—That the first recommendation of the Subcommittee on Agenda and Procedure, presented this day, be now concurred in.

The Chairman reported the second recommendation of the Subcommittee on Agenda and Procedure recommending "a follow-up investigation of the matter drawn to the Committee's attention by the Auditor General under paragraph 87 in the report of 1963. And that in furtherance of same, the Chairman correspond with the former Minister of Transport at the time the contract was let, enclosing a copy of the Committee's transcript and asking for an explanation of the procedure. The steering subcommittee, on the basis of any reply received, to determine whether or not there is necessity to ask for a personal appearance before the Committee of the former Minister."

On motion of Mr. Southam, seconded by Mr. Leblanc,

Resolved,—That the second recommendation of the Subcommittee on Agenda and Procedure, presented this day, be now concurred in.

The Chairman tabled a letter from Mr. G. A. Scott, Acting Deputy Minister, Department of Transport, supplying names of original directors of Air Food Caterers and other information requested on July 16. The Committee agreed that this letter be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 1*).

The Chairman also tabled a letter from Mr. E. B. Armstrong, Deputy Minister, Department of National Defence, enclosing information on National Defence Schools in Canada as requested July 14. The Committee agreed that this letter be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 2*).

The Committee resumed consideration of the 1962 carryover items and the 1963 Report of the Auditor General.

The Chairman introduced Messrs. Lalonde, Williams and Boyle.

On paragraphs 99 of the 1962 Report and 79 of the 1963 Report, *Payment of Maintenance Expenses of Civil Service Recreational Association Centre*, Mr. Henderson reviewed these paragraphs, and Mr. Lalonde was examined thereon.

On paragraphs 115 of the 1962 Report and 98 of the 1963 Report, *Non-productive payments*, Mr. Lalonde was examined, particularly on *Construction of breakwater, New Haven, N.S.*, and also *Construction of Surveys and Mapping Building, Ottawa*.

The questioning of the witnesses still continuing, at 10.55 a.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(29)

The Committee resumed at 3.35 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Forbes, Francis, Hales, Legault, Mandziuk, McLean (*Charlotte*), Southam, Stenson, Tardif, Tucker and Winch (16).

In attendance: (Same as at the morning sitting).

The Chairman tabled a letter from the Deputy Minister of Public Works, enclosing information requested at the morning sitting relating to "Construction of Surveys and Mapping Building, Ottawa." The Committee agreed that this letter be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 3*).

The Committee resumed consideration of non-productive payments relating to the Department of Public Works.

Mr. Lalonde was further examined, assisted by Messrs. Williams and Boyle.

Mr. Henderson and Mr. Smith also supplied additional information.

On paragraphs 80, 81, 82, 83 and 96 of the 1963 Report, Messrs. Henderson and Lalonde reviewed these paragraphs and were examined thereon.

The questioning of the witnesses being concluded, the Chairman thanked Messrs. Lalonde, Williams and Boyle.

At 5.25 p.m., the Committee adjourned until 9.30 a.m. Tuesday, July 28.

Clerk of the Committee.

M. Slack,

EVIDENCE

THURSDAY, July 23, 1964.

The CHAIRMAN: Gentlemen, I see a quorum just about to sit down. Will you please come to order. Before we launch into the business scheduled for today I have some formal matters to deal with. First of all, I have here the long form reports from the Auditor General in respect of the Canada Council for the years 1962 and 1963, respectively. As officials of the Canada Council will be appearing before us next Tuesday, these documents are to be tabled in order to form a background for the discussion. Therefore, I would ask for a motion that these be tabled.

Mr. WAHN: I so move.

Mr. WINCH: I second the motion.

The CHAIRMAN: The motion has been moved and seconded. Is it agreed? Motion agreed to.

In addition, for your information you should have received the annual reports for 1962 and 1963 of the Canada Council. These are the reports which have been referred to us. Any members who find themselves without too much to do over the week end may have an opportunity to spend a useful period of time examining these documents so they may come here prepared to ask searching and analytical questions.

Now I shall announce the formation of the two subcommittees which this main committee has instructed to be set up. First, the subcommittee on the form of the public accounts will consist of Messrs. Ryan, Prittie, Southam, Smith, Rondeau, Pilon and Cameron. Then the subcommittee to inquire into the question of national defence surplus and assets in connection with the Crown Assets Disposal Corporation will consist of Messrs. Tardif, Hales, Winch, Côté and Francis. In each case the first person named is the chairman. I shall get in touch with these committees later on. There will be reports made and information prepared for their use. Therefore, some time will be spent before the committees actually commence deliberations on the matters in which they are interested and get under way.

In connection with the latter committee, your subcommittee met yesterday and in view of the discussion which the Chairman had with the Auditor General in connection with the scope of this inquiry into the Crown Assets Disposal Corporation and the Department of National Defence, it has been suggested that a motion be presented with the approval of the steering committee, with conditions attaching. I shall speak about this later. It is also suggested that authority be requested from the house to engage accountants and clerical personnel for the purpose of this inquiry and relevant investigations.

In my discussion of the matter with Mr. Henderson two points were brought out. Since his staff has been stretched pretty thinly as the result of the requirements of this committee, this particular inquiry into Crown Assets Disposal Corporation matters will necessitate a very close and searching examination requiring the services of two or three people over a period of a number of weeks, probably five or six weeks at least. Secondly, by virtue of the position of the Auditor General as the auditor to which these two corporations report, it is felt that it might be better if the matters were pursued

under the guidance and supervision of independent accountants. Therefore, a motion has been proposed, and I shall now ask the committee for its approval. However, I should add that it is subject to this condition; before we actually proceed to engage any such personnel, we should discuss the matter with the treasury board to see if personnel of the kind required are available and can be secured for this purpose. So, if the motion is passed, as I hope it will, it will be passed on that understanding. Subject to that condition, the sub-committee, which will be making the investigation, will first go to the treasury board to see if they can secure the personnel required.

Mr. WINCH: I move the adoption of this motion.

The CHAIRMAN: All right. Here is the motion:

Your committee recommends that it seek permission to be empowered to engage an accountant and clerical personnel, as it may deem necessary, for the purpose of its inquiry and relevant investigations arising from its study of the public accounts.

It has been moved by Mr. Winch. Is there a seconder?

Mr. WAHN: I second the motion.

The CHAIRMAN: Is there any discussion? Are you ready for the question?

Motion agreed to.

You will recall that when Mr. Scott, assistant deputy minister of transport, was here representing the department, some question arose with regard to the Montreal airport. At that time Mr. Winch indicated to the committee that he proposed to bring before the steering committee a motion dealing with further investigation.

After consideration, Mr. Winch brought this matter up at the steering committee, and the steering committee having considered the matter has this proposal to make to the committee:

The steering committee further recommends a follow-up investigation of the matter drawn to the committee's attention by the Auditor General under paragraph 87 in the report of 1963. And that in furtherance of same the Chairman correspond with the former minister of transport at the time the contract was let, enclosing a copy of the committee's transcript and asking an explanation of the procedure. The steering committee on the basis of any reply received to determine whether or not there is necessity to ask for a personal appearance before the committee of the former minister.

I am advised this should be paragraph 87, which deals with the catering contract.

Mr. LEBLANC: It is catering instead of construction?

The CHAIRMAN: That is right. I was dealing with the whole airport, which is a very different kettle of fish.

Mr. SOUTHAM: I so move, Mr. Chairman.

Mr. LEBLANC: I second the motion.

The CHAIRMAN: Is there any discussion? Are you ready for the question? Will all those in favour please indicate. Contrary?

Motion agreed to.

Gentlemen, I have here a letter dated July 20 from Mr. Scott, the Acting Deputy Minister of Transport, furnishing certain information containing the names of the directors in respect of this particular arrangement. This was information which was asked for at the meeting. Is it agreed that this be tabled and printed as an appendix to the proceedings?

Agreed.

Finally, I have a letter from Mr. Armstrong, the Deputy Minister of National Defence, in which he encloses certain information which was asked for in connection with the Department of National Defence schools in Canada, their expenditures and their grants. This information has also been requested. Is it agreed that this be tabled and printed as an appendix to today's proceedings?

Agreed.

Gentlemen, we have with us today the officials of the Department of Public Works in the persons of Mr. Lalonde, the deputy minister, and Mr. Williams, the assistant deputy minister. Both of these gentlemen are known to members of the committee. Mr. Lalonde, prior to his present position, was Deputy Minister of Veterans Affairs and Mr. Williams has been with the Department of Public Works for some considerable time. In addition, they are accompanied by Mr. Boyle, their financial adviser. I am sure that after we have heard from Mr. Henderson with respect to various matters of concern to us today we will have the benefit of a statement from Mr. Lalonde and his officials; and the committee will then be free to ask questions, as we have in the past.

Mr. Henderson, would you mind opening the proceedings in connection with the first paragraph with which we have to deal?

Mr. A. M. HENDERSON (*Auditor General of Canada*): Gentlemen, the first paragraph for attention this morning is paragraph 99 of my 1962 report dealing with payment of maintenance expenses of the civil service recreational association centre. That appears on page 44 of my 1962 report. While this paragraph is being considered, may we also suggest that we deal with paragraph 79 of my 1963 report which deals with the same subject.

Members of the committee will recall that the subject matter of these paragraphs was discussed in the committee on June 16 last, details of which can be found at pages 142 to 146 of the evidence.

It was suggested by several members at that time that they might have a few questions they would wish to put to the deputy minister of public works as and when he was able to come before the committee. Very briefly, at that time, as you will recall, the members took note of the fact that, contrary to the long standing parliamentary practice that grants or other forms of financial assistance to non-governmental organizations are made only from parliamentary appropriations specifically provided or clearly intended for such purpose, maintenance expenses of this recreational centre, which is operated by the civil service recreational association, a privately managed staff organization at Ottawa, had been charged to the vote entitled "Maintenance and Operation of Public Buildings and Grounds".

In my paragraph 79 in the 1963 report I bring the matter up to date; that is to say, through March 31, 1963. It is our understanding that in the estimates in the future it is proposed to add the name of the building to the vote wording. But, I think it was brought out in the committee that a few extra words should be added after naming the building to indicate the nature of the charges that would be made to the vote.

Mr. Chairman, I think that is about all I would have to say on the background of that matter.

The CHAIRMAN: Thank you. Now, gentlemen, we had a full and interesting discussion on this matter just recently, and if any members want to add to their knowledge or change or vary the views they expressed at that time they may do so now.

Mr. Lalonde is present and I am sure he will be glad to answer any questions put by members who have formed a decision on the matter and who may feel their decision was right.

Mr. LEBLANC: Mr. Chairman, we discussed that matter yesterday.

The CHAIRMAN: Yes. Would you proceed, Mr. Ryan.

Mr. RYAN: Mr. Chairman, I have a couple of questions to put to bring out information which I would like to have.

How many civil servants are there in Ottawa who would use these facilities?

Mr. LUCIEN LALONDE (*Deputy Minister, Department of Public Works*): I would say between 55,000 and 60,000.

Mr. RYAN: And, in cities like Montreal, Toronto, and other cities in Canada have we any similar provisions for civil servants?

Mr. LALONDE: Not that I know of.

Mr. RYAN: How many civil servants would you have in the city of Toronto?

Mr. LALONDE: I am afraid I do not know.

Mr. WINCH: Is there any reason at all in the estimation of yourself or your department why there could not be a short explanatory note because this is not actually something in the nature of a government building or a government service. I agree with the principle involved, but should it not be shown more in the way of a grant for the specific purpose as between employer and employee in the capital city?

Mr. LALONDE: I am sure the department, in preparing its estimates for next year, will take note of the remarks of the committee.

As you know, it was only in the further supplementary estimates of 1963-64 that this item was included as a result of the observations made by the Auditor General. So, I think that in consultation with treasury board we will take this into account.

Mr. WINCH: Then there is agreement between the Auditor General and treasury board and, I presume, the department, so no further action is required at this time.

The CHAIRMAN: *Functus officio*.

Mr. TARDIF: How do you say that in French?

The CHAIRMAN: Tout fini.

Mr. WINCH: Just say *fait accompli*; that is easier.

The CHAIRMAN: We will now proceed to the next item, paragraph 115. Perhaps I should leave it to Mr. Henderson to give the order of these paragraphs. However, I assume this is the next one that appears on our agenda.

Mr. HENDERSON: The next item is paragraph 115, which again deals with non-productive payments. While we are considering those which deal with the 1962 year would it be your wish, Mr. Chairman, that you might also include the 1963 ones which are referred to in my 1963 report under paragraph 98 where, as you recall, they are shown in appendix form, in order that we might have just one discussion of non-productive payments without having to go back to the subject.

If that is agreed, the 1962 lot includes, as you will see, under paragraph 115 of the 1962 report, eight cases of non-productive payments shown in the listing which starts at page 54, involving an aggregate amount of \$345,000. In the 1962-63 fiscal year, as shown in appendix 1 of my 1963 report, which appears at page 148, you will note that out of the 37 cases of non-productive payments listed there 20 of them, having an aggregate cost of \$496,000, related to the Department of Public Works.

It might be useful if I were to first give you the numbers. You might care to tick them off the report.

The CHAIRMAN: I was going to suggest that.

Mr. HENDERSON: In the 1962 report under paragraph 115 the ones for discussion this morning would consist of items 12, 13, 14, 15, 16, 17, 18 and 19.

In my 1963 report, in appendix 1, on page 148, the pertinent numbers are: 7, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 35 and 37.

At this point, Mr. Chairman, the members may wish to ask some questions.

Mr. WINCH: My first question would be addressed to Mr. Lalonde. Could he explain to us why, for the first time in two years, they have been termed non-productive payments.

Mr. LALONDE: Mr. Chairman, I am not sure whether the interpretation that the committee places on the heading, "non-productive payments" means that every one of those is undesirable or a result of maladministration. If that is so, then I am afraid I have to disagree that all non-productive payments must, of necessity, be bad, because in some of the instances cited here the department has in fact saved money by taking the action which it took; in other cases there is no such justification. However, I would not accept the premise that all of these items are the result of bad administration.

Mr. WINCH: To save the time of the committee and yet get down to what the committee would like to know would you, of your own volition, point out those items which would be justified?

Mr. LALONDE: I can give you a few examples. For instance, in the 1962, list let us take item 13 first. It has to do with construction of a breakwater at New Haven. First, there was a contract awarded to a contractor at a certain price. The contractor started the work and then found that the quarry which he had been using could not supply him with the kind of stone that he needed to use to construct the breakwater. When he reached the stage where he could not use that quarry any more, he said to the department, "I will only continue if you change my contract to a cost-plus contract. I will find the rock somewhere else, but put me on a cost-plus contract". The department did not agree, as they do not, as a matter of policy, encourage the use of cost-plus contracts. They cancelled his contract and they had to pay him for the work he had done. The department subsequently called for new tenders. The prices that the second contractor quoted, based on another source of rock, were much lower than the original prices quoted by the first contractor, so that in effect the decision not to place the first contractor on a cost-plus basis and the fact that we got a better price on the second contract enabled the department to complete the job at a total cost which was smaller than what it would have been if we had continued at the prices quoted in the first contract.

Mr. TARDIF: That would be the exception.

Mr. LALONDE: This is an example of what can happen.

Mr. TARDIF: It is an example of an exception, not of the rule.

Mr. LALONDE: Let us take another example.

Mr. WINCH: I am sorry, I was thinking of different instances. I was going to ask whether we could get at least general explanations on different types of cases. I have just marked two examples on which you could give us some indication of your operation. Take No. 18 in the 1962 report where it says, "As the department's representative was remiss in completing arrangements". If you go to the 1963 report, under No. 7 we have a decision for a new route. In another item, I have not marked it, we have something owing to faulty plans. Perhaps I am being too general but it is information on this type of example that we would like to have regarding your operation and what happens to the taxpayers' money because a serious mistake was made, or else after deciding something, and you must have had reasons for that decision, you then completely change your route, or else your plans are wrong.

Mr. HARKNESS: Could we finish with item 13 before going on to the others?

The CHAIRMAN: I was going to say that. Mr. Winch indicated his general line of questioning but we are now on 13 and Mr. Tardif brought up a specific

question. Mr. Harkness has another one. Have you any specific question with regard to 13?

Mr. TARDIF: I was asking if this is the practice. If the department has saved money this is the exception, it is not the rule, because this normally would not happen. If you stop a contract in the middle and ask for further prices the normal result is that it will cost considerably more.

Mr. LALONDE: The only thing I was trying to prove, Mr. Chairman, is that you cannot say that all non-productive payments are bad. That is the only thing I am trying to argue at the moment before the committee. There are some that are bad, certainly. You pointed out a couple, Mr. Winch.

Mr. CAMERON (*High Park*): Mr. Lalonde made a statement and I agree with it. We are not looking at it from the standpoint that because it is a non-productive payment we think it is bad. We want to examine all of them. Some may be good, some may be bad. That is the principle on which I at least intend to proceed, and I would hope that that would be the consensus of this committee, that that is the basis on which we should proceed, not to pick a certain one out and say it is bad per se. We want to find out whether it is actually bad. There may be redeeming features in a lot of them.

Mr. HARKNESS: The explanation which Mr. Lalonde has given, it seems to me, does not tie in with the figures that are presented in the report. The original estimated cost of this particular work was \$125,000. The original contractor was paid \$121,000. Then the second contractor received \$134,000. That is the thing that strikes me, that you finally end up paying more than twice as much as the original estimated cost. The explanation is given that the second contractor put in a lower price than the first. I just do not see how these two statements can be reconciled, in view of these figures.

Mr. LALONDE: I think I have to admit, Mr. Chairman, that the original estimate was wrong. It was simply a departmental estimate; it was not the cost of the contract.

Mr. HARKNESS: It was not a fixed contract for \$125,000; it was a cost-plus contract, was it?

Mr. LALONDE: It was based on unit prices. The original unit price for core stone was \$1.71 per ton, and on the second contract we got a quote of \$1.20 per ton on that kind of stone. The first contract on armour stone was \$4.95 per ton, and the second contract was \$3.50 per ton.

Mr. HARKNESS: Then it would seem to be a serious error on the part of the departmental officials who made these estimates.

Mr. LALONDE: I agree with that.

Mr. HARKNESS: Parliament actually voted \$125,000 for this work and it ended up at more than twice that amount. Therefore, the money was voted on what you might call a misapprehension, or something along that line. What happens in a case like this? You have had an estimate which proves to be very, very wrong indeed; is there any disciplinary action directed towards the persons who prepared your estimates?

Mr. LALONDE: No, Mr. Chairman, because estimating, especially in a case of that type of construction, in many instances, is not an exact science, the same as preparing a budget is not an exact science. We have had mistakes in estimating and we admit it; I think this is one of those. However, I do not think you can dismiss an engineer or architect for making a mistake in estimating when you consider the number of estimates the department puts out in a year. I think the number is not that bad. I admit there are some errors, but it is not that bad.

Mr. TARDIF: Does this mean that the engineer finds it difficult to figure out the cubic footage of stone necessary to fill this?

Mr. LALONDE: There is something else involved in this; it is a rather technical matter and I would ask Mr. Williams to explain how it is determined whether you will get the necessary amount and particular type of stone.

Mr. TARDIF: I do not care where he gets the stone, but it should not be a great mathematical problem to figure out how many cubic feet is needed to fill a certain contract.

Mr. G. B. WILLIAMS (*Assistant Deputy Minister, Technical, Department of Public Works*): In this particular case you must realize that the stone was being placed in tidal waters. You have to protect it in the tidal waters by placing armour stone on the outside. It is impossible to control completely the matter of how much you will lose, and how much will roll down. Without a great deal of investigation work done in advance, it is difficult to determine how much stone will settle. In this particular case, when the contractor attempted to blast and get out the size of rock required, he could not get a system of blasting which would produce the required size of stone. Normally, we do not designate the quarry the contractor will use; we show him which ones are available and he chooses. However, in this case, the quarry was immediately adjacent and from all appearances it appeared to contain hard stone. The only way in which we could have determined this exactly would have been by going in and opening up a test quarry.

Mr. TARDIF: I know you are not answering in this way in an effort to confuse me; you would not do that. However, I did not ask about the stone which would go around it. I was speaking about the stone to fill this in, and I wondered whether the engineer calculated the type of bottom that is there, and how much sinkage there would be?

Mr. WILLIAMS: He made his estimate and it was not an accurate estimate.

Mr. CROUSE: The witness stated that the government referred the contractor to the quarry which he should use.

Mr. WILLIAMS: In this particular case we did.

Mr. CROUSE: And in this particular case he based his price on the quarry which you recommended?

Mr. WILLIAMS: Yes.

Mr. CROUSE: Did your governmental engineer make a test of that quarry to ascertain whether or not the stone contained any asbestos fissures, or anything else which would break up the rock when quarried, so that he could not get the stone he required.

Mr. WILLIAMS: We did not open up a test quarry.

Mr. CROUSE: You did recommend this and when he started he found fissures in the rock which prevented him getting suitable stone.

Mr. WILLIAMS: Yes.

Mr. CROUSE: Then your departmental engineers definitely were at fault in recommending this particular quarry?

Mr. WILLIAMS: I would not accept that they were definitely at fault. The engineer examined the site. He saw a large outcrop of granite which normally would have produced good armour stone. In this particular case his judgment was inaccurate and it did not. I might say, this is one case where we could not get the armour stone. However, if we were to open up a test quarry in every case on every job, it would be a very expensive and very slow proposition. If we were to open up a quarry each time in order to establish whether or not we were positive to get the type and size of stone required, I think this would

be impracticable from an engineering standpoint in time and cost. In this case, we were wrong; in many we are not.

Mr. CROUSE: In view of the figures which Mr. Henderson has presented to the committee, I would submit that the cost involved has been quite substantial. Would it not be advisable to allow the contractors to do their own assessment, because from the facts presented here it would appear that the contractor might not have chosen the quarry you recommended?

Mr. WILLIAMS: The normal practice is to let the contractor choose his own quarry. This is an exception where we selected it. You say it would cost more; that is true in this case, but if we were to open up a test quarry on every job we did, the cost would be more than the amount involved here.

Mr. CROUSE: Would it not be advisable to test the quarry before you recommend to a contractor or, if not, that you should leave the contractor to make his own assessment before bidding on a job?

Mr. WILLIAMS: As I say, this was the exception. Since that time, where we have specified a quarry we have test quarried.

Mr. WAHN: In this case, were tenders called on the first contract?

Mr. LALONDE: Yes.

Mr. WAHN: Did the man who eventually completed the job tender?

Mr. LALONDE: Tenders were called for the second contract.

Mr. WAHN: Did the man who got the second contract tender on the first contract?

Mr. LALONDE: I am sorry; I do not have that information.

Mr. WAHN: But tenders were called?

Mr. LALONDE: In both cases.

Mr. WAHN: Mr. Williams stated that ordinarily the department does not specify a quarry.

Mr. LALONDE: May I interrupt; the man who tendered and who was successful on the second contract did not tender on the first contract.

Mr. WAHN: The tenders were adequately advertised?

Mr. LALONDE: Yes.

Mr. WAHN: Mr. Williams said it is not usual to specify a quarry. Why was a quarry specified in this particular case?

Mr. WILLIAMS: To the district engineer, the outcrop right at the site looked like a natural for the job. He specified it in an effort to get lower prices for the total job. He thought that by specifying this it would remove some of the risk from the contractor and hence he would get a better price.

Mr. WAHN: I gather that when the job was officially completed it was found that suitable rock was available within a mile or so of the job. You said that if you opened a test quarry on each of these jobs, the total cost would be excessive. I would agree with you. But the suggestion made was that they should not have specified a particular quarry, or if they did specify one, that you then should make whatever tests are necessary in order to make sure that the stone from that quarry would be satisfactory.

I would go along entirely with what Mr. Cameron said earlier, that merely because this proves to be a non-productive expenditure it does not necessarily mean that it was undesirable. I think what the committee is concerned with is to find out if mistakes have occurred, whether they are recognized as mistakes by the department, and whether corrective action is taken. I do not think we are engaged in any witch hunting. All of us know that mistakes in planning occur, no matter how careful you may be.

I know in construction work, from my own experience, that the major overruns in cost occur because sufficient preliminary engineering and surveying and that kind of thing have not been done. That is when you get into the big ones. This is rather a minor case. However, it is another indication that you would have saved a fair amount of money if a bit more preliminary work had been done in this particular case.

The cost then was due to the fact that the stone from that particular quarry was specified, yet the preliminary engineering work that should have been done in this instance was not done.

Mr. WILLIAMS: That is right, and I may say that, where we contemplate for one reason or another specifying a particular quarry, we now do testing, and we have done so in two cases since.

Mr. WAHN: Do you save money by specifying.

Mr. WILLIAMS: It is always debatable, but in some cases it might cause a problem. If in our opinion there is only one source available, and there is the possibility of someone getting an option on that source, this would preclude a number of people bidding, and that could be the situation.

Mr. WAHN: I would think that when you specify a quarry, it would tend to increase the cost rather than to cut it, because if you do not specify a quarry, then the contractor may make his own deal with whoever happens to have the required type of rock. But if you specify a particular quarry, then you should make a very careful investigation to find out if it is the only type of material which would do the job, and that it is to be found in that specified spot. If I were a contractor I would like to have freedom not only to deal with the particular quarry owner you specify, but also with neighbouring quarry owners and perhaps thereby get better bids. You say you would save by specifying a particular quarry. How does this work?

Mr. WILLIAMS: I would say that in 95 per cent of this type of job, and perhaps in even more than that, we do not specify. We rarely specify. In this particular case the supervising engineer felt that here was a quarry within a matter of one hundred yards or so, and if he could use this quarry, he might be able to keep the price down.

Mr. WAHN: Who owned the quarry?

Mr. WILLIAMS: It was a local arrangement, but we could get control of the quarry.

Mr. WAHN: If the rock had been taken out of that quarry, who would have been paid?

Mr. WILLIAMS: I am afraid I cannot answer that question.

Mr. WAHN: I would like to know if it was a private owner? Is there something improper? That is what this committee is interested in.

Mr. WILLIAMS: No, I am sure there was nothing improper.

Mr. WAHN: I do not see how we can tell until we know the name of the quarry owner. If it was a crown owned quarry, that is one thing.

The CHAIRMAN: Maybe that information could be obtained.

Mr. HENDERSON: It is right here.

The CHAIRMAN: On what page?

Mr. WAHN: Then my question is irrelevant. I am sorry.

The CHAIRMAN: Now, Mr. Ryan.

Mr. RYAN: Mr. Williams said it was controlled by the crown. Surely there is a difference. Mr. Williams thinks it was controlled by the crown.

Mr. WILLIAMS: I said that we had control of it for the contract, but I do not know whether it was crown owned or not.

Mr. RYAN: It might have been leased by the crown.

Mr. WILLIAMS: It could have been.

Mr. WAHN: I would like to know if any private individual would derive profit as a result of the stones taken from that particular quarry, whether it be crown controlled or not. If it were the crown, presumably there would be no royalty payment for the stone.

The CHAIRMAN: If you do not have the information may we obtain it later on? You will get it later, perhaps by this afternoon? Now, Mr. McLean.

Mr. McLEAN (*Charlotte*): I was going to ask whether or not this was done on a unit basis, or if the contractor was obliged to keep on with this particular quarry, and if the unit price was much higher, it was going to cost the government a good deal more money. If the government owned the quarry, however, it would be a different proposition. But if the government did not own the quarry, it would be another matter. I can see where a unit basis of \$125,000 does not make much difference because it might take twice as much stone. If you get a bad lot or something, it might take twice as much stone. I cannot see where the trouble comes in unless it was privately owned and leased to the government, or something like that.

The CHAIRMAN: This information will be secured by the officials, Mr. McLean.

Mr. LALONDE: We will check all these details and I will provide them in writing to you.

The CHAIRMAN: Mr. Ryan.

Mr. RYAN: I would like to ask the gentlemen what it would have cost, in their estimation, to test this particular granite rock outcrop?

Mr. WILLIAMS: It is difficult to say how much drilling and blasting we would have had to do. We have spent in one case, \$56,000 on test borings, but we would not have spent that much for a job of this size. It would not be as much as reported here as a non-productive payment in this particular case.

Mr. RYAN: Would a simple test at the top of this outcrop have been of any value to you?

Mr. WILLIAMS: No. This was a rare problem. It was after he got into deep drilling that it was found that the contractor could not fracture the armour stone satisfactorily. The stone on the surface, from what we could see from our drill core, appeared to be solid and to fracture properly. But when we got into it, it just would not do so.

Mr. RYAN: Would it be possible to let the committee have the exact words of the specifications from the first contract, that is, the specifications which stated that suitable stone for the purpose could be obtained from the crown owned quarry adjacent to the site? Could we have those words for our record?

Mr. WILLIAMS: Perhaps I should emphasize that this was the exception to the rule.

Mr. MANDZIUK: Mr. Chairman, my question might be hypothetical, but I assume the committee can take it that the first contractor was quite competent to do the job; is that right? He could surely have given you an estimate of what the cost-plus job would run to, indicating whether it would amount to the \$134,000 some odd which you had to pay the second contractor. The second contractor built on the foundation, or at least some work had already been done; is that right?

Mr. WILLIAMS: That is correct.

Mr. MANDZIUK: He would then have benefited from that work?

Mr. WILLIAMS: We attempted to negotiate with the first contractor but he would not do it on any other basis than cost-plus. Cost-plus in itself is open

ended, because whatever the work cost the contractor we must pay, plus his percentage.

Mr. MANDZIUK: Could there not have been an estimate made of what the cost-plus contract would run to?

Mr. WILLIAMS: An estimate would be meaningless because when he reached that point, not being finished, he would just keep on working on the cost-plus basis.

Mr. MANDZIUK: Thank you.

Mr. WILLIAMS: In the atmosphere of trying to negotiate with him the price for settling the contract we felt that it would be better to go to a public tender for the job.

Mr. MANDZIUK: That is all, Mr. Chairman.

Mr. HALES: Mr. Chairman, this situation existed in 1962. We have asked these witnesses to appear before this committee to help us investigate these non-productive expenditures. This question seems to hinge on one thing, whether this quarry was owned or leased by the government, or owned by someone else. I am surprised that the department officials cannot furnish us with this information at this moment in view of the fact this occurred two years ago. I am surprised that information is not available right on the spot this morning. If this is an example of how work is being done by the department it is a wonder the loss was not more than \$95,000. I think we are entitled to an answer to the question at this moment. Who owned the quarry?

Mr. SOUTHAM: I should like to ask a supplementary question, or make a remark in respect of what Mr. Hales has said.

At page 58 of the 1962 auditor's report in paragraph 13 appears the following statement:

—suitable stone for the purpose could be obtained from a crown-owned quarry—

Is that statement correct or incorrect?

Mr. HALES: That is exactly what the members of this committee would like to know.

Mr. SOUTHAM: The Auditor General's report states at page 58 in the second line from the top that suitable stone could be obtained from a crown owned quarry adjacent to the site. Is there a difference of opinion whether it was crown owned or just leased? What is the status of this particular quarry? Is this statement to which I have referred incorrect?

Mr. LALONDE: I am quite certain that the Auditor General obtained that information from our files, and I am quite sure that the quarry must have been crown owned. I think what Mr. Williams was referring to was the fact he was not sure whether it was owned by the department or leased by the department with the department having control of it in any event. In the light of the wording of the Auditor General's remarks I am quite certain that it was owned by the department.

Mr. HALES: Mr. Chairman, have the officials of the department made a thorough study and investigation of this situation and, if so, how could those officials make a thorough investigation without knowing the answer to that question? That is the point I am making.

Mr. LALONDE: I am afraid we are becoming involved in an interpretation of words. Mr. Williams stated that he could not testify in that regard, but I am sure that the records of the department, all of which we do not have with us today, will indicate that this quarry was crown owned. Having read the remarks of the Auditor General I have no doubt that it was owned by the crown.

Mr. TARDIF: Was it stipulated in the original contract that the contractor must purchase the stone from this particular quarry?

Mr. WILLIAMS: Not necessarily, sir. The contract would probably have been awarded on the basis that the bid price took into account the fact that the contractor would use stone from that quarry, if the quarry was crown owned, as is indicated in the Auditor General's remarks, and which I am reasonably sure are correct. When I said I did not know I meant that sitting here at this moment I personally do not know whether the quarry was crown owned. That is what I meant when I said that in the first place. If the quarry was crown owned we asked him to bid on that site and he would pay no royalty to us. We had bought the quarry and it was available for any works we carried out. The contractor would take his units from that site.

Mr. TARDIF: Mr. Chairman, I am asking whether it was specified in the original contract that the stone must be taken from that quarry.

Mr. WILLIAMS: That is correct.

Mr. TARDIF: Would the price be averaged out? Was that portion done by the original contractor the most costly part of the contract, and would the \$1.31 or \$1.50 which was charged after, average out the price in any event?

Mr. WILLIAMS: No, that is not so. Part of the contract concerned core stone. The first contractor never did place any armour stone, which would involve a more difficult job.

Mr. TARDIF: If the contract was based on unit prices, would the officials of the department not know that the original unit price was too high?

Mr. WILLIAMS: No because this involved his bid price. It was after he started placing a certain amount of the core stone when we found we could not get any armour stone, and that is when he quit.

Mr. TARDIF: Everything was based on a unit price; is that right?

Mr. WILLIAMS: That is correct.

Mr. TARDIF: What caused the increase in his cost? The contractor was paid for every unit he produced; is that right?

Mr. WILLIAMS: Yes, but he could not produce the unit to the specifications so he could not be paid for it.

Mr. TARDIF: Thank you very much.

Mr. WAHN: Mr. Chairman, in order that I may be clear in this regard I should like to know whether the officials of the department can tell me if any payment was made to any person for stone taken out of that quarry, regardless of who technically owns it? I should like to ask another question arising out of that situation. Assume the quarry was crown owned; when did the crown acquire the quarry? Why did it acquire the quarry? How much was paid for the quarry and from whom was the quarry purchased? In other words, if the crown purchased this quarry for the purpose of this contract I am very interested in knowing how much it paid for the quarry?

Mr. RYAN: I am also very interested in having that information.

The CHAIRMAN: Perhaps that information could be obtained and made available later.

Mr. LALONDE: Yes, Mr. Chairman.

The CHAIRMAN: Are there any further questions in respect of this particular item, non-productive payments?

Being not a very good mathematician, I should like to ask whether the Auditor General has at some time or another added together all of the items of non-productive payments itemized both in the 1962 and 1963 reports?

Are the total figures available, and can they be put on the record for the benefit of committee members?

Mr. HENDERSON: Mr. Chairman, the 22 items listed in the 1962 report total \$627,547. The 37 items listed in the 1963 report total \$1,051,193.

Mr. FRANCIS: I should like to ask a question referring to item 15 in the 1962 report.

The CHAIRMAN: Yes, that question would be in order.

Mr. FRANCIS: I am wondering whether the costs referred to in that item apply to space under long term lease, in this case in London, which turned out to be space which could not be economically used or not required? The statement indicates that there has been no disposition of the residue of the leasehold interest, and I am curious to know what procedures are followed in an attempt to dispose of these things in situations of this kind. I should like to know whether the officials of the department have been able to make any more satisfactory arrangements subsequent to the report of the Auditor General?

Mr. HENDERSON: Mr. Chairman, perhaps I could answer Mr. Francis' question by saying that if he will look at item 17 in the 1963 report he will see that the situation did continue into that fiscal year but that the interest was disposed of subsequent to March 31, 1963. I think that will answer your query. It is item 17 on page 152, you see, in the 1963 report.

Mr. FRANCIS: Was it disposed of in terms which leave a continuing liability to the department, or was it disposed of in such a way that there would be no liability to the department?

Mr. HENDERSON: That would be within the next fiscal year. Perhaps Mr. Lalonde could answer that. I do not have that information.

Mr. BOYLE: There is no continuing liability on the department. The residue of the lease has been disposed of in its entirety.

Mr. WAHN: May I go back to item 12, which is a Department of Public Works item?

The CHAIRMAN: Of the 1962 report?

Mr. WAHN: Yes, 1962. Here again is a case where additional costs were incurred because the plans apparently were changed or were not available for the contractor.

I really do think this is the main source of overrun in costs in most construction contracts, and this seems to be another instance of it. Could the witness tell us why it was impossible for the specifications to be prepared for the equipment needed by the Department of Mines and Technical Surveys for these press rooms so the contractor could have proceeded without delay and without the additional cost that is incurred? Should the plans not be completed in advance?

Mr. LALONDE: This would be wonderful in so far as our department is concerned, but in providing service to other departments we have to take their requirements as they are produced for our use. In this case the experts in the Department of Mines and Technical Surveys did not know exactly in 1958 how many presses or what type of presses they were going to place there. I think there were a number of reasons, but it is a little hard for me to say what was in their minds. Undoubtedly, the question of volume and the question of new types of press were involved. It was only in November, 1959, that this knowledge was available. There was a delay there between February and November when the department did not have a firm decision on how many presses would be placed there or what type they would be.

Mr. WAHN: I think it is most likely, in any case where plans and specifications are not complete before the contract is let or when the contract is let, that

you will run into additional costs. I would think in most cases this would happen; correct me if I am wrong. If you do not have complete plans and specifications before you start a contract job, in many cases, at any rate, one is bound to run into additional costs.

Mr. LALONDE: Normally we would, yes.

Mr. WAHN: So when the Department of Mines and Technical Surveys asked you to go ahead with this building and were unable to give you the information needed to provide a contractor with complete plans and specifications on which he could bid accurately, you must have known that there was a danger of an overrun in costs. Then, presumably, the Department of Mines and Technical Surveys told you to go ahead anyway. In those circumstances, when you think there may be an overrun in cost because the plan is not ready, who makes the decision whether the urgency on the part of the Department of Mines and Technical Surveys for this building is sufficiently great to incur the risk of additional cost, which is almost inevitable? Who makes this decision?

Mr. LALONDE: I do not know who made the decision at that time, but I think that the factor involved in making the decision is whether there is a need to provide the total accommodation in spite of the fact that this small portion of it is not at the moment available for final planning.

If I remember correctly, the situation in the Department of Mines and Technical Surveys at that time was fairly bad, and I think it was bad until the buildings on Booth street were constructed. I am sure the deputy ministers involved and the Treasury Board looked at this and decided that they could not wait and delay the construction of the whole building itself for almost another year.

Mr. WAHN: In this case, Mr. Chairman, there was a fixed price contract of \$7,840,000. Would this be approved by the treasury board? What is the procedure? When you go ahead and erect a building such as this, what is the procedure?

Mr. LALONDE: We submit the project to treasury board for approval.

Mr. WAHN: The project?

Mr. LALONDE: Yes, we submit the project in detail. Then, when the tenders come in we submit the tenders for final approval of the project and of the tender to be accepted.

Mr. WAHN: They approved this specific tender?

Mr. LALONDE: Yes.

Mr. WAHN: Would you inform the treasury board at that time that in your view the plans and specifications were not sufficiently complete and that there would likely be additional costs incurred?

Mr. LALONDE: I am not sure whether this was done. I am not even sure whether at that time the Department of Mines and Technical Surveys was in a position to say whether there would be further costs. I think the only danger there was that the department could have proceeded with some plan and put in X number of presses, and then a year later the Department of Mines and Technical Surveys would come to us and say, "This does not work; you have to change this." Then it would have been more costly, I think.

Mr. WAHN: The amount involved is relatively small in relation to the total contract, but the point I am trying to make is that from what the witness has said it would appear that the decision on whether this job is to be done is made by the treasury board, because the treasury board is the one that first approves the project and then actually approves the tender.

Mr. LALONDE: The Department of Public Works clears with the department involved first—in this case the Department of Mines and Technical Surveys.

Then, having received acceptance or concurrence by the department involved, it submits the project to the treasury board.

Mr. WAHN: Would this be an impossible or undesirable suggestion: that, in cases where the Department of Public Works has not received the detailed plans and specifications required for the entire job—when these have not been made available to it—they should specifically notify the treasury board to this effect so that the treasury board, which presumably is the body which makes the ultimate decision whether the project is to proceed, can make a policy decision on whether it should proceed immediately, knowing full well that there is likely to be an overrun in costs because the plans are not ready, or whether they wait until the plans will be finalized.

Mr. LALONDE: Mr. Chairman, I think this is a very good method of proceeding except for the fact that, as I hope you realize, at that time we can only issue a warning because we could not at that time place a money estimate on what might be involved. In other words, when this was approved, prior to April, 1958, we could not say to the treasury board that this might cost \$50,000 or \$100,000. We could only say that the plans are not complete; and that we can do.

Mr. WAHN: You say the plans are not complete and, because the plans are not complete, in your experience this is likely to and probably will result in increased cost; and that I think would be a useful warning to treasury board.

The CHAIRMAN: I have Mr. Tardif, Mr. Southam and Mr. Ryan listed as wishing to ask questions. I will take Mr. Tardif's questions, and then I am afraid we will have to adjourn because the defence committee follows us in this room.

Mr. TARDIF: What is the name of the contractor involved?

Mr. LALONDE: E.G.M. Cape.

Mr. CROUSE: Is any disciplinary action taken against officials? It says "Result of delay in submitting finalized plans". I was wondering if any disciplinary action is taken by the senior officials when these mistakes are made by the engineers and engineering staff. You must be aware of these errors. What action do you take, if any, to discipline these people who make these mistakes?

Mr. LALONDE: There are a few instances where there has been a separation of some employees who were responsible, not for an error in estimating or a mistake in choosing a kind of material for a certain purpose, but where it was gross negligence. Although there have been some cases, as I say, there have not been very many. There are a couple mentioned in here where that happened.

The CHAIRMAN: We may be able to go on and have Mr. Southam and Mr. Ryan put their questions.

Mr. SOUTHAM: Mr. Chairman, I have a short question. It is supplementary and in respect of item 12. In the case of this contractor having been paid an extra \$141,300 for this work, I would like to know who arbitrates this. How does the arbitrator act in arriving at this extra amount of \$141,000? Because the contractor did not have a complete set of plans and specifications is there a tendency on his part to gouge a bit, or is it done fairly equitably?

Mr. LALONDE: Normally it is done by negotiations between the department and the contractor and eventually as a result of those negotiations the department makes a submission to treasury board explaining why it recommends a settlement at a certain figure.

The CHAIRMAN: Would you proceed, Mr. Ryan.

Mr. RYAN: Mr. Lalonde, was this building designed by your department or by an independent outside architect?

Mr. LALONDE: There would have been a consultant architect involved.

Mr. RYAN: Did your department do all the engineering for the air conditioning, heating and so on in respect of this building?

Mr. LALONDE: No. The consultant would have been responsible for this.

Mr. RYAN: Therefore, the architect in this case, as is usual, employed his own engineering staff?

Mr. LALONDE: Yes.

Mr. RYAN: I take it that there were complete working drawings before the fixed price of \$7,840,000 was tendered and accepted in this case?

Mr. LALONDE: Yes.

Mr. RYAN: And this extra money was really due then to difficulties either arising with the engineering or changes made by the Department of Mines and Technical Surveys?

Mr. LALONDE: That is right. It was as a result of a change in specifications which came out later following discussions between the representatives of the Department of Mines and Technical Surveys, our own architects and the consulting architects and engineers.

Mr. RYAN: Then, really the extra of \$141,392 is rather small compared with the original contract price of \$7,840,000; in other words, it is not unusual that a situation like this would arise, even in private construction?

Mr. LALONDE: I think it would happen in outside construction as well.

Mr. RYAN: Yes, I think it would.

Mr. CAMERON (*High Park*): Mr. Chairman, I have a supplementary question which, in part, relates to the question put by Mr. Southam. I would be interested in seeing a breakdown of how in March, 1962 the amount of \$141,392 to cover additional costs incurred as a result of the delay was made up. I wonder if that could be supplied at our next meeting?

The CHAIRMAN: What item is that?

Mr. CAMERON (*High Park*): Item 12, and it is in the amount of \$141,392.

Mr. LALONDE: Yes, we have that information right here. We can provide it in writing and it could form part of your record.

Mr. WINCH: Mr. Chairman, I am sorry but it was imperative for me to leave. Are you considering having Mr. Lalonde back again?

The CHAIRMAN: We have to adjourn to make room for the defence committee. However, we will be meeting again at 3.30 this afternoon, at which time we will proceed with this same subject in this same room.

For the benefit of the latecomers we have available for distribution the 1962-63 report of the Canada Council, which we will be discussing next Tuesday.

AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I see a quorum. The meeting will please come to order. Before we carry on from where we left off I wish to say that I have been given a letter by Mr. Lalonde to which he has attached the material which was asked for, and which covers a breakdown of the claim in connection with item 12 for the construction of a surveys and mapping building in Ottawa. There are a great many figures included and I suggest that the committee agree that this document be tabled and printed as an appendix to today's proceedings. It deals with item 12 on the construction of a surveys and mapping building, as mentioned in the 1962 report. We are asking that it be tabled and printed a

an appendix. If members wish to pursue any further questioning in the matter, here it is. May I have agreement in the matter?

Agreed.

Before we go on, let me say that Mr. Lalonde has also prepared additional information with regard to the other projects on which he was questioned. Rather than table it, when the time comes he will read it into the record and make a statement in which he will give the information requested.

Mr. MANDZIUK: My question does not relate specifically to this matter.

Mr. WINCH: After we adjourned the public accounts committee this morning we held a meeting of the defence committee which lasted until after one o'clock. When I left the room I left my public accounts documents in front of me with a note reading: "Harold Winch, please leave on table." Would the Chairman please find out who it was who removed my documents, and have them returned to me?

The CHAIRMAN: Would you check on it, Mr. McGee. Mr. Winch says that some of his documents were left here after the defence committee finished its proceedings, and they are now missing. Oh, they are at the back. Thank you. It would have been bad if they had been removed.

Mr. WINCH: I left a note on them saying "Do not remove from this table."

Mr. TARDIF: How is your handwriting, Harold?

Mr. MANDZIUK: My question is of a general nature. With all these additional payments for contracts, I would like to know what the yardstick of measurement is? On what grounds are they made? Is it on compassionate grounds or on legal grounds? Where there is some fault in the contract itself, and if it were a contract with a private individual, the contractor would probably be entitled to receive some consideration. But it is known across the country pretty generally that you can get almost anything out of the department if you ask for it. Rather than avoid court action, they will settle out of court and pay through the nose. I would like to know what the yardstick is, and if there are any legal grounds under which a contractor may ask for compensation. Does the Department of Public Works consult with law officers of the crown before making a settlement? That is the first part of my question. I shall put everything on the board.

The second part of my question is this: I take it that the treasury board, so we have been told, approves these additional awards to contractors when there is a recommendation. Does the treasury board get all the pertinent facts which justify them to agree to the payment of \$50,000 or \$100,000, or whatever it is? I think we should be made clear about it because I know in private business a contractor would have quite a time of it to get anything extra. Once he has entered into a contract, he must carry out his contract. At least, it usually would end in a lawsuit if nothing else. I have given you quite a big order, but maybe it will require only a short answer.

Mr. LALONDE: Perhaps I can best answer you in as few words as possible by explaining how we do it.

Mr. MANDZIUK: Yes, please do.

Mr. LALONDE: It is departmental policy that each claim by a contractor must be documented and justified. You mentioned the word "compassionate". I think we have been quite often accused of not being compassionate enough.

Mr. MANDZIUK: I have never heard of that.

Mr. LALONDE: So far as the department is concerned, that does not enter into the picture. The contractor must produce evidence to show that he has suffered damage because of some action which was unforeseeable, or which resulted from departmental action of some kind. He puts forward his claim.

His claim is then analysed by departmental officials. They give their opinion on whether each item in the claim is valid or not. Then this opinion is placed before the executives of the department where a decision is made on what items in the claim should be recommended by the department to the treasury board.

A complete submission is then drafted and forwarded to the treasury board giving the amount of the claim, the details of the claim by the contractor, and the departmental recommendation. Sometimes the treasury board approves our recommendation, and sometimes they vary it.

I do not know if I have answered all your questions.

Mr. MANDZIUK: After you have been given the facts that you require, you pass them along to the treasury board?

Mr. LALONDE: Yes, together with our comments. And in this particular case that I have left with the Chairman, the claim was higher than what we recommended to the treasury board, and what the treasury board approved.

Mr. MANDZIUK: You have answered it so far, but does your department ever ask for opinions from law officers of the crown? I can understand where through the fault of the department or the crown a contractor may have had to ask for some additional award. But it may be for something which he should have foreseen himself. If so, then why should he be compensated?

Mr. LALONDE: We have representatives of the Department of Justice attached to the Department of Public Works. We have a number of them. And before we make our own decision, we clear with them whether there are legal implications with respect to the claim, on whether it is legal or not to make a payment, or whether the statute of limitations operates.

Mr. MANDZIUK: What I am after is this. You would ask for a legal opinion whether you are liable. That is as far as your questioning of the law officer of the crown should go. If I employ a contractor, then what I would like to know from my counsel or from the court is whether I am legally liable to that contractor where through no fault of his own he has not been able to carry out his contract within the figure at which his tender has been accepted. If you can assure this committee that you are legally bound, then perhaps we can vary the heading which the Auditor General has put on these items as non-productive, because they are certainly non-productive. This is like giving a contractor an extra bonus for something or other.

Mr. LALONDE: I find it difficult to pinpoint the area of legal responsibility when we are talking about a claim which might depend on a change in specifications or something similar. There are certain terms in the contract which cover that sort of thing. This is something we would have to read to you to indicate the wording of the new contract form which, incidentally, is laid down by contract regulations.

Mr. MANDZIUK: If through no fault of the contractor something arises, then you are legally bound and perfectly justified in making additional payments, and I am sure you could justify this to the treasury board and the Auditor General. Is this procedure just an attempt to keep peace in the family by settling the claims? That is the impression I have.

Mr. LALONDE: Mr. Boyle could give you a little more detail in regard to the new contract form, which I think is relevant.

Mr. L. P. BOYLE (*Financial Adviser, Financial Services, Department of Public Works*): I think I followed your question and perhaps I can make this distinction. There are certain terms in the contract which give to the contractor entitlement for additional compensation when certain circumstances arise. I am thinking now in terms of soil conditions being not the same as the contractor

had a right to expect, or the crown taking some action which delays the contractor in his work. There is a legal entitlement under the contract to additional compensation under those circumstances.

Over a period of time, of course, departmental officials, on the basis of advice given by legal officers tend to become familiar with these areas in which there is a legal obligation and which would cause us to seek approval.

There is the other area of claim by a contractor, which is outside the contract range, and I rather think this is what you have in mind. When a contractor comes in and says, for one reason or another, he has lost money on a job, although there is nothing in the contract through which he can claim a legal entitlement to compensation, he still asks for consideration, I think I can say the department takes a particularly rigid view. These claims are outside the terms of the contract proper. Notwithstanding what you may have heard, we are not disposed to accept all these cases. We seek the advice of our law officers to support the position which we feel we should take on all these cases. We are prepared to do everything that the contract obligates us to do, but beyond that we feel the contractor must accept the risk he has assumed when he signed the contract. I think it is fair to say we can assure you that the number of cases in which compensation is paid now over and above the legal right of the contract is very small. Mind you, it is only since April 1, 1963 that the new contract has been introduced, building in certain rights for the contractor which previously he had not had.

I do not want to take up too much time but I should say that prior to April 1, 1963 a federal construction contract was very much weighed in favour of the federal crown, and there was no legal obligation on the crown to pay anything other than the price quoted in the bid.

Mr. MANDZIUK: Mr. Chairman, are we to understand that the contractor as a rule comes to the department after he has completed the contract and attempts to prove a case for entitlement to an additional award, or is this done during the process of the contract when something arises?

Mr. BOYLE: Yes, if during the course of the work a circumstance arises the contractor will bring that compensatable circumstance to our attention. Again, in the past, this was done in some cases, while in other cases the contractor held the claim until the end of the job because he obviously would not know whether he had a claim or not until he found out whether or not he had made a profit. Under the present contract the contractor must bring circumstances from which a claim might arise to our attention within specific time limits.

Mr. MANDZIUK: I have one further question. Do you now have a standard contract?

Mr. BOYLE: We do use a standard contract now.

Mr. MANDZIUK: Mr. Chairman, may we have a contract either incorporated in the evidence today or circulated among the members of the committee.

The CHAIRMAN: I think that could be done. Is it agreeable to members of the committee that contract forms be left with the clerk and circulated to the members.

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Do you have a question to ask Mr. Winch?

Mr. WINCH: I have two questions I should like to direct to the deputy minister. As a result of my experience in industry, I completely understand that small and big mistakes can be made, but I am very interested in a remark made by the deputy minister at approximately five minutes before we adjourned this morning to the effect that on occasions gross mistakes are made. I should like to ask the deputy minister what his procedure is in

handling gross mistakes when they are discovered. Can you give us an example of a gross mistake being made and indicate how you handled it?

Mr. LALONDE: I have not been with the department long enough to come across a case of that kind, Mr. Winch.

Mr. WINCH: You made the statement that there are gross mistakes made.

Mr. LALONDE: There are one or two cases mentioned by the Auditor General in the 1963 report.

Mr. WINCH: Where are those items listed in the 1962 or 1963 report?

Mr. LALONDE: The first item is 18 in the 1962 report.

Mr. WINCH: At what page does that paragraph appear?

Mr. LALONDE: That paragraph appears at page 59 and involves the construction of some housing units in Fort Smith in the Northwest Territories.

Mr. WINCH: I think that was the item to which I drew your attention this morning.

Mr. LALONDE: Yes.

Mr. WINCH: The departmental representative was remiss.

Mr. LALONDE: In this case the departmental representative assured everybody concerned he would take the necessary action to provide power at a certain time. He did not do so and power was only provided a month later. This gave rise to a claim and there was a separation there.

The other item involves the construction of a building and is referred to in the 1963 report, paragraph 80 at page 49.

The CHAIRMAN: That item is not included in non-productive items, is it, Mr. Lalonde?

Mr. LALONDE: That is right, Mr. Chairman.

The CHAIRMAN: This is the next item we will refer to after we complete our discussion of the ones now before us. Perhaps the members of the committee will leave this item for consideration after we have completed the items with which we are now dealing.

Are there any further questions regarding the items now before us?

Mr. WINCH: Can you indicate what your general attitude is toward gross mistakes? I am not suggesting that a man should be fired, but how do you handle this situation?

Mr. LALONDE: I have experienced several cases during the past six months regarding departmental representatives being demoted for what I considered to be inefficient operation at the level at which they were making decisions. Certain individuals have been subjected to reductions in pay for what I considered to be gross negligence. These cases are not very numerous.

Mr. WINCH: Yes.

Mr. LALONDE: We feel that with the volume of work these people have to do—and there is no doubt that we have to decentralize more and more all the time—it is inevitable that there will be some mistakes if they are going to take any action at all. If they do not do anything, they will never make any mistakes, but we will never get anywhere.

Mr. WINCH: I am somewhat concerned about the relationship between your district engineering office and yourself on requests or demands, or whatever term you wish to use, by contractors when they think that your plans are incorrect. If I wanted to do so, I could give a number of instances. May I ask what is your procedure on these matters when you have a demand by a contractor for an additional sum? What is your procedure on your plans?

This came up the other day with regard to a duplex. They just gave the instructions for the one side and did not write on the plan or the specification that it must be the same for the plumbing on the other side. I have had instances from the Department of Public Works of a similar nature where your plans are such that neither the blueprints nor the specifications have shown that certain work has to be done, work which must be done. It is to my personal knowledge that the treasury board has not passed certain expenditures or authorized certain extra payment when it was not shown on your plans or specifications that the work had to be done in order to fulfil the contract.

I am now going to come to my specific point. Your regional office in Vancouver turned down a request, the architect turned it down; everybody turned it down; Ottawa turned it down. However, when the blueprints were really studied it was found that the regional office was wrong, the architect was wrong, the engineer was wrong, and you were wrong.

Mr. MANDZIUK: To err is human; to forgive is divine.

Mr. WINCH: How often are contractors stuck? I am speaking now on behalf of contractors. How often are contractors stuck because your architects, your regional office, your engineers say, "You should have known this". They say that although the blueprints did not show it and the specifications did not show it.

I think Mr. Williams knows the case to which I am referring.

Mr. TARDIF: Can the solution to that problem not be that if a contractor does something that is not shown on the specification or the plan he gets a working order?

Mr. WINCH: You try to get it from the district engineers of the Department of Public Works!

Mr. WILLIAMS: The procedure we have—and this is implicit in the new contract—is that the contractor bids on the information he has at the time he tenders and those inferences that it is reasonable to draw from them. In any set that goes out there are always supplementary drawings. There are, for example, shop drawings. In making up his bid there are certain things that he provides to meet the specifications. These provisions are not exactly the same among all bidders, and the differences may provide a different fit. He provides appropriate shop drawings, so to that extent the original drawings may not be complete, but they are complete within the concept of the trade.

From what you have said I am assuming you refer to a particular job in which there was a dispute at the district level with regard to whether he should, from the information given to him in the initial stage, have assumed and provided for certain additional works. It was checked with the consultant architect, and the consultant architect and district architect took the same view.

Mr. WINCH: That he had no claim?

Mr. WILLIAMS: That he had no claim. The matter was referred to headquarters. The report from the district architect and the consultant architect was reviewed in headquarters and, from the information provided, headquarters advised the contractor that he did not have a claim and the reason for which he did not have a claim. The contractor subsequently wrote to headquarters on the basis of reasons for which we turned it down and gave us information which, when we checked it through, we found to be correct; and then he was paid. This is not abnormal procedure although in most cases it does not arise.

Mr. WINCH: Harold Winch, M.P., who can read blueprints, read the blueprints and your staff agreed that I was reading the blueprints correctly. Then he was paid. Why? Your office can read blueprints; they draft them.

Mr. WILLIAMS: There was a difference in opinion and if there was an error made in our office we regret this. We took the necessary action to correct it as soon as we established there was an error.

Mr. CAMERON (*High Park*): With what additional information did he supply you when he wrote direct to headquarters? That is what I understood you to say he did.

Mr. WILLIAMS: When we wrote back to him we gave him the basis on which we rejected the request. We try to give the basis on which we do reject it so that if there is something we are not interpreting correctly or some information that he has to which we did not give proper consideration, he has the opportunity to present it.

Mr. CAMERON (*High Park*): I was interested to know what it was.

Mr. WINCH: Mr. Chairman—

The CHAIRMAN: May we get the answer to Mr. Cameron's question and then go back to Mr. Winch?

Mr. WILLIAMS: The answer to your specific question is that I do not know. I am treating it in a general way; I am not speaking of a specific case. I think I know the case to which Mr. Winch referred, but I do not know the detail.

Mr. CAMERON (*High Park*): I think I know, and probably we will agree. The plan for a double building showed heating on one side only; the other side of the building did not show heating.

The CHAIRMAN: I would suspect this possibly covers a building that is not within the ambit of our consideration. It has been discretely hidden in generalities so far, and we should probably not go into detail. We are getting into the field of 1964, which might be the subject of a non-productive payment in some other year.

Mr. Winch, have you finished?

Mr. WINCH: I mentioned that in a general way but I was referring to the British Columbia penitentiary, and that you probably know.

The point I am after here is this: Is it not your architectural and engineering practice that, if something has to be duplicated or if you have to go through a certain procedure in order to be able to do what the contract calls for, it should not be shown on the plan? Does a mistake like this occur very often?

Mr. WILLIAMS: I am not clear what you are getting at, Mr. Winch, but I would hope it is not very often that a mistake like this occurs.

Mr. WINCH: Is it the general practice in the Department of Public Works? You must have to do thousands upon thousands of blueprints and drawings. Is it not the general practice in that department when something has to be duplicated, if you do not show it on the actual blueprint, to mark on the blueprint itself that there has to be a duplication in such and such a circumstance or, if one thing is shown on the first floor and the third, you will show on the blueprint that the same thing has to be done on the second floor although it is not in the contract? Is it not the case that you do this when, although something is not shown on the blueprint, it has to be done in order to complete the job properly?

Mr. WILLIAMS: If it is shown as a detail on the mechanical engineering plan, then it should be referred to on the architectural plan on each floor as it applies.

Mr. WINCH: Thank you. It should be?

Mr. WILLIAMS: Yes.

Mr. WINCH: So the matter to which I am referring is just one of those occurrences when it was not shown?

Mr. WILLIAMS: That is right.

Mr. WINCH: It was not shown?

Mr. WILLIAMS: That is right.

Mr. WINCH: Thank you. It should be.

Mr. WILLIAMS: Yes.

Mr. WINCH: So, what I am referring to is just one of those occurrences when it did not.

Mr. WILLIAMS: Yes.

Mr. WINCH: It was not shown.

Mr. WILLIAMS: That is right.

Mr. WINCH: Is there any check made by any senior officer between the production of the final drawings and the one who uses them?

Mr. WILLIAMS: Yes, there is a check made to the extent that we have to make sure the plans conform all the way through. Now we, like other people, have a volume of work to do with a certain number of people. Admittedly, in some cases we miss them.

Mr. WINCH: Well, I know I never have caught up on all the mistakes I made in the construction business.

The CHAIRMAN: Would you proceed, Mr. Southam.

Mr. SOUTHAM: Mr. Chairman, this morning the Auditor General Mr. Henderson, in answer to a question in respect of non-productive payments, summed up the total amount for 1962 as roughly half a million dollars and I think in 1963 it added up to a little over \$1 million. This in itself is startling. Could you tell us the reason for the increase between 1962 and 1963? Is it possible that this may be due to what Mr. Smith referred to a short while ago in answer to questions put by Mr. Mandziuk, as recent changes in the contract form in order to make it a little more favourable or flexible to the contractor? As I say, is it possible that this would be the reason for this large increase in non-productive payments between 1962 and 1963?

The CHAIRMAN: If I may interrupt, Mr. Southam, that was Mr. Boyle.

Mr. BOYLE: Mr. Chairman, if I could deal with the question, I do not believe the introduction of the new form has had any effect on these non-productive payments. Perhaps it is the success Mr. Henderson has had in some small way of increasing his own staff to make it possible to produce more evidence and, perhaps, there was a greater number reported in 1962 than in 1963.

Mr. SOUTHAM: I have a further question on that subject. Who directed this pressure upon the department to have these contract forms changed to make them more favourable or flexible?

Mr. BOYLE: There is a body in existence, the treasury board advisory committee on contracts, which is chaired now by the comptroller of the treasury, on which representatives of the major construction agencies, public works, transport, northern affairs, D.C.L. and so on are represented. This group has been working for a very long time under terms of reference given by treasury board to produce a contract. It has three terms of reference, (a), to make it as fair as possible between the contractor and the crown; (b) to make it as simple and as easy to understand as possible, and, (c), to identify the professional responsibilities of the professional persons involved. These are in the terms of references set out by treasury board, and the contract was developed by the treasury board advisory committee.

Mr. SOUTHAM: To follow along that line of questioning and the number of items listed in 1962 in respect of non-productive payments, with an increase

in 1963, could you advise what the percentage of the non-productive payment items were compared with the total number of applications which came before the department for revision of contracts. I am trying to get this into the proper perspective.

Mr. BOYLE: I would not want to answer without doing further research in this connection. However, I will be glad to supply you with this information.

Mr. SOUTHAM: The reason I put the question is that it might put this whole thing into a better perspective so far as the department is concerned. We are dealing with a number of cases here which look fairly glaring; however, the over-all picture may not be so bad when we are supplied with the information in respect of the total number of applications reviewed.

Mr. BOYLE: We will be glad to do some research on this. We are unable to give you this information today but we will be glad to furnish it later.

The CHAIRMAN: Does the committee agree that when this letter is received it should be tabled and printed as an appendix to these proceedings so the information will be available to the members?

Some hon. MEMBERS: Agreed.

Mr. SOUTHAM: In answer to my first question, will Mr. Henderson or someone advise why the increase in 1963 is almost double that of 1962 in respect of these non-productive payments?

Mr. HENDERSON: First of all, I might just say that the number of people that Mr. Smith has on his establishment handling the auditing work for the Department of Public Works has not been increased in 1963 or 1962.

As you know, our work is a test audit; it is not a complete check of all the transactions of the department, and the non-productive payments listed here are only those which come to our attention in the course of carrying out that test audit. We discuss them with the department. In fact, they are good enough to check the correctness of the facts with us before the note is even put in, and we have sought to eliminate any so-called border line cases.

I would like to just mention to the committee that there never really has been a precise definition given to me or my predecessors of what constitutes a non-productive payment. In 1962, as you will see from my reference at the beginning of paragraph 115, I refer to the committee's direction to me to list all of these encountered in the course of my work, and that I do. We go to considerable pains to present the facts just as fairly and as clearly as we can.

I think in our discussion today about the cases we encounter in connection with our work with the Department of Public Works you do have to realize that the department, as the deputy minister said, is essentially a servicing department, and they are by no means to be blamed at all for a number of these because they are caused by circumstances beyond their control. For example, number 19 in 1962, in respect of architectural services in connection with the proposed R.C.M.P. building in Markham, the R.C.M.P. decided after the work had been started that Markham was not the place they wanted to locate because it was too far from Toronto. Nevertheless, acting on earlier instructions, the department had proceeded to make commitments. Therefore it is factors like these that I know you will want to bear in mind as you assess the situation. Mr. Lalonde this morning discussed the construction of a surveys and mapping building in Ottawa, item 12. Again, that was as a result of action taken by the Department of Mines and Technical Surveys. Now, Mr. Lalonde and his associates are speaking to these things because, of course, they take place on their books. I just felt I should mention this, Mr. Chairman, because I think this whole thing should be brought into the proper perspective and, in fairness to the Department of Public Works, these things must be borne in mind.

Mr. SOUTHAM: As I stated, you summed this up this morning as approximately one half million dollars in respect of 1962 and a little over \$1 million for 1963 and, as I understand it, this was for all departments. Is it possible that you made more spot checks in the latter year which enlarged this figure or was there, in fact, that much of an increase?

Mr. HENDERSON: Perhaps I could have Mr. Smith say something in that connection. He is in charge of this work in the Department of Public Works.

Mr. SMITH: Mr. Chairman, I think there is bound to be a variation from year to year in the number of items which we have selected as fitting into this rather nebulous definition of non-productive payments. While our examination is on a test basis I think that the items which appear in the reports for the respective years in which we are dealing do, in fact, represent practically all, if not all, of the non-productive items in excess of \$1,000.

Undoubtedly there will be smaller claims which our test audit did not bring to light.

Mr. SOUTHAM: I was just wondering in view of these two years and the total amount, whether we should not go back a year or two and get the figures for 1960-61. Would they show a gradual increase, or this much of an increase? This seems like a fairly large increase. Maybe we should get the whole thing into perspective and see whether this is accelerating or maintaining a happy medium.

Mr. SMITH: For some reason, which I cannot explain, the number of items of this nature relating to the fiscal year 1962-63 was greatly in excess of anything which we had experienced in the past.

Mr. STENSON: I would like to ask did Mr. Boyle, intimate to us that a contractor, if he lost money, could come back to the department and put his case before the department and secure some help?

Mr. BOYLE: In the department we try to live within the terms of the contract on the basis that it has now been made equitable and therefore is enforceable.

Mr. STENSON: They would not receive any money whatsoever?

Mr. BOYLE: I cannot say a definitive no. Our position would be that we could give them compensation owing to them under the contract.

Mr. STENSON: Would they have to show something for it?

Mr. BOYLE: The loss of money in itself would not be sufficient grounds to consider additional compensation.

Mr. MANDZIUK: Mr. Chairman, my question stems from Mr. Southam's questions. I believe Mr. Boyle promised to give us the number of contractors whose claims for additional awards were rejected. Could Mr. Boyle at the same time, while on that task, give us a list of the number of claims made and paid, because we are given to understand that these came up from a spot check by the Auditor General and therefore there could be others amounting maybe to considerably more than a million or a million and a half dollars.

Mr. BOYLE: I will try to give you a list of the contracts, those paid and those rejected. This might involve a considerable amount of work, and some of them may escape us. Could I confine myself to a given fiscal year 1962-63?

Mr. MANDZUIK: Yes, just the years under discussion.

Mr. WINCH: Mr. Chairman, I am basically asking for your advice because I would like to ask a question and I do not know at which point to ask it. It relates in general to non-productive payments. I am asking for your advice, sir, because as we have these distinguished witnesses from the Department of Public Works with us I would like to ask them a question, either at this point or at some other time, about their specifications which are non-productive in

that they specify, in construction work, that a contractor must instal equipment of a trade name, which often has to be imported into Canada, when the same equipment or its equivalent which is even more efficient, can be obtained at a much smaller price. I am very much intrigued with this, and I will say right now that at the moment my studies make me believe that it is not in the Department of Public Works but somewhere else there are kick-backs on the specifications. I am asking you, Mr. Chairman, at which point I might ask this question, now or later on?

The CHAIRMAN: This is a question of general nature. I do not know whether the department officials are in a position to answer it.

Mr. WINCH: If my question can be asked now I would like to make it more specific. Can I do it now?

Mr. MANDZIUK: I think this is practically a charge, and a serious one. I think Mr. Winch should be more specific. It is a reflection on somebody or other in the department. We are not trying to put them through the wringer, but we are trying to find out facts.

The CHAIRMAN: Not only that, of course, but the department officials are here to deal with specific matters which are contained in the Auditor General's report.

Mr. WINCH: Could I ask the question at the end of the meeting?

The CHAIRMAN: You could frame your question specifically. If it is a matter which comes within the ambit of Mr. Henderson's report, it is a matter which these gentlemen must be prepared to answer. If it is not in Mr. Henderson's report, but if it is remotely related to it, we might be able to consider it. We will get through the other items, if we can, and then we will consider it.

Mr. CARDIFF: I have been following this very closely and I would like to ask the following question: Is it not a case of a lack of direction from some person who is responsible and in charge? We cannot get that information out of the deputy minister or anyone else because they will not pinpoint anybody down, but is it not a case of a lack of direction from some responsible person who is in charge which causes a lot of these mistakes? Mind you, I can pick up the book here and pick out a dozen items where the contractor received twice as much as the contract price in the first place owing not to his fault but to a lack of direction from the department. I can name the cases, if you want me to.

Mr. LALONDE: Mr. Chairman, I am afraid these are general questions that are very difficult to answer. Is this lack of direction on the part of the consultant or the architect or the engineer? Is this lack of direction on the part of the district official?

Mr. CARDIFF: I would say it was lack of direction on the part of somebody responsible for these changes being made. I have not the slightest doubt that the deputy minister knows pretty well where these mistakes are made. Perhaps he corrects them, I do not know. If he does not, he should. It is the responsibility of the Auditor General, as far as I can see, to find these things and to point them out to the committee. He has a double-barrelled responsibility because he has also to protect the contractor.

Mr. LALONDE: Once we get the report of the Auditor General it is too late to take corrective action on that particular item. The only thing we try to do is to prevent a recurrence, but we are not always successful.

Mr. CARDIFF: This has been going on for years.

Mr. LALONDE: Yes, ever since there has been a government. You cannot stop this altogether.

Mr. CARDIFF: That is true, but mistakes can be corrected. I am not critical when someone makes a mistake because if you do not make mistakes then other people want to know why you are not doing very much. However, we want to know who is responsible for these mistakes. This is costing this country a lot of money. That is what we are here for; to try to correct them.

The CHAIRMAN: While Mr. Lalonde is considering whether there can be a further answer, Mr. Hales has a question.

Mr. HALES: Mr. Chairman, I apologize for being late but there is a fact I want to point out. While we were on item 13, construction of a breakwater at New Haven, Nova Scotia, which we were discussing this morning, I think the committee wanted to know who owned the other quarries. Has this been answered?

The CHAIRMAN: No, we got started on the other matter and we are projecting ourselves in several directions, Mr. Lalonde has this material and he is going to read it before we leave.

Mr. TARDIF: The same thing worries me as worries Mr. Cardiff. I know it is inevitable that there will be some errors in a big operation such as the Department of Public Works, but although these errors are drawn to our attention there is no specific blame put on anybody. For instance, let us take the purchase of land for the R.C.M.P. building at \$127,000. Somebody must have given the O.K. for the purchase of this land at Markham, Ontario. Was it the same person who a couple of weeks ago found that it was in an improper place and that the \$127,000 had been spent for nothing? I think what Mr. Cardiff and I are worried about is that we find out that these things have been done, but we never do find out who did them.

Mr. CARDIFF: That is the point; nobody is ever pinned down.

Mr. TARDIF: Then we ask whether any disciplinary action is taken. If a person is guilty of one or more mistakes which cost the country a lot of money, it is a proper question to ask whether any disciplinary action is taken. Certainly, we know there are going to be mistakes, but we would be interested in knowing whether these mistakes are made by the same persons all the time.

Somebody must have been responsible for giving the O.K. to purchase the land at Markham, Ontario, for the R.C.M.P. headquarters. Certainly, if the person who did that did it without finding out how impossible it would be to give the expected service from such a distance, then definitely there must have been a lack of efficiency, a lack of knowledge, or both. We never find out who did it. The department says, of course there are mistakes and that efforts will be made to see that they do not happen in the future; but if the same man makes several of these mistakes, I would think that if he were transferred somewhere else, or if he were given a ten month leave without pay, this might help cure these things in the future.

Mr. CARDIFF: If this land was acquired for an R.C.M.P. building at Markham, Ontario, and the government does not use it for that purpose, what happens to the land?

Mr. TARDIF: It is still there.

Mr. LALONDE: We are in the process of declaring it surplus to requirements.

Mr. MANDZIUK: Is it still worth the amount of money that you paid for it?

Mr. LALONDE: We think so.

Mr. MANDZIUK: We have had experience in respect of what the Crown Assets Disposal Corporation does with these things; they sell it for a buck.

Mr. TARDIF: Is there an answer to my question?

Mr. LALONDE: I am endeavouring to find out who wrote to us to tell us to buy this.

Mr. WINCH: Was it the R.C.M.P. who said they wanted it there?

Mr. LALONDE: That is right.

Mr. HALES: Mr. Chairman, may I ask which is the next item we will take up so that we might be studying it?

The CHAIRMAN: We will be taking up paragraph 80 in the 1963 report.

Mr. HALES: What about item 17 in paragraph 115?

The CHAIRMAN: We have been dealing with the non-productive items in a group. We are still on those items, both in the 1962 and the 1963 reports. When we finish those, we will proceed to paragraph 80 in the 1963 report.

Mr. TARDIF: May I suggest that for future meetings the persons who are going to be witnesses before this committee, and who I presume know what is to take place, bring along with them the documents pertaining to the items which will be discussed.

Mr. LALONDE: We are going through the notes right now; they are here.

Mr. TARDIF: I am glad you are not guilty of this, but previous witnesses have been guilty of it. Members of parliament do not have a tremendous memory; sometimes they forget, and eventually do not obtain their answers.

The CHAIRMAN: At this time I will ask Mr. Lalonde to give an answer to the question in which Mr. Hales is interested.

Mr. LALONDE: This is with regard to the breakwater at New Haven, which is item 13. The question was asked: Who did the quarry belong to in the first contract? I now have the information which is contained in the specification, clause 19, in respect of procurement of rock. The information is to the effect that the site is owned by the Department of Public Works, and that there is a sufficient quantity of suitable rock on the site. This is where the specifications were wrong, because it turned out later there was not sufficient rock.

Then, on the second contract the contractor was told to make his own arrangements to provide whatever rock was necessary to complete the job. One of the queer things in this matter of public bidding is that on the first contract there was no charge made for the rock taken out of our quarry. That quarry was next to the site and had been purchased not as a quarry, but as a suitable approach to the breakwater, and at the same time served the dual purpose of providing the rock. If the intention had worked out, it was good but the unit prices were higher on the first tender than on the second tender, although they were not by the same people. There were public tenders in both instances.

Mr. HALES: In the second case, the quarry was the responsibility of the contractor?

Mr. LALONDE: Yes.

Mr. HALES: To go back to the first tender, the Department of Public Works was going to supply the quarry stone out of their own pit, as it were.

Mr. LALONDE: That is right.

Mr. HALES: This had been purchased for approach purposes?

Mr. LALONDE: Correct.

Mr. HALES: Did the department take any soundings or make any investigations in respect of whether or not rock was available on that property?

Mr. LALONDE: There were no actual drillings, as Mr. Williams explained this morning, to test the quarry. It appeared to be sufficient and this is where we admit a mistake was made.

Mr. HALES: We do not need to pursue that any further. The department admits they made no soundings and no testings, and thought there was sufficient rock there.

Mr. LALONDE: Yes.

Mr. HALES: And they thought wrong. The specifications were drawn up on this basis?

Mr. LALONDE: Correct.

Mr. HALES: Who in the department would say that there was rock on this property; would it be the area man?

Mr. LALONDE: The district engineer.

Mr. HALES: Is he still on the job?

Mr. LALONDE: Yes.

Mr. HALES: He is located in Halifax?

Mr. LALONDE: Yes.

Mr. HALES: How long has he been there as the district engineer in Halifax?

Mr. LALONDE: Since 1955 or 1956.

Mr. HALES: He went there in 1955 or 1956 as area engineer?

Mr. LALONDE: As district engineer for harbours and rivers.

Mr. HALES: Has he had any promotion since then, or has he had a promotion since this particular case happened?

Mr. LALONDE: No.

Mr. HALES: I believe this was in 1962?

Mr. LALONDE: No; this was in 1958-59.

Mr. HALES: The work was done in that period?

Mr. LALONDE: Yes.

Mr. HALES: You do not know whether or not he has had a promotion since then?

Mr. LALONDE: He has had no promotions.

Mr. HALES: Has he had an increase in pay since then?

Mr. LALONDE: Yes; the usual salary adjustments or increments.

Mr. HALES: I do not think I need pursue this any further.

The CHAIRMAN: Mr. Stenson.

Mr. STENSON: My question is in respect of item 13 in paragraph 115. What I cannot understand is that if the estimated cost of the contract was \$125,000, he certainly did not complete it, or nearly complete it and yet he was paid \$121,000. Could you explain to us why he was given so much money and was not able to complete the contract?

Mr. LALONDE: I think the estimate of the cost was based on unit prices. This is what we explained this morning. This is where the whole thing went wrong. The basic items on which you had to pay were so many tons of rock at so much, plus overhead and everything else.

That is why the whole construction became much more expensive than the original estimate.

Mr. STENSON: Would he have a fixed unit price when he got this contract?

Mr. LALONDE: Yes, I mentioned it this morning.

Mr. STENSON: He must have delivered very few units. How did they figure paying the contractor \$121,000?

Mr. LALONDE: You had better explain it, Mr. Williams.

Mr. WILLIAMS: Because the contract was not practical; he could not perform the contract because he could not get the rock. He could not be paid at the unit price in the contract, because it was impossible for him to perform because of our error. In a situation like that you negotiate, or you try to negotiate a settlement. And in the absence of that, you must pay under the contract cost-plus; so we had to pay him his costs under the contract, plus.

Mr. STENSON: You feel that the costs were shown as his expenses?

Mr. WILLIAMS: His costs were examined. He provided us with his books, his costs, the amount of money he spent on his equipment, and the work he did in moving his equipment in and out; the formula is cost plus ten per cent.

Mr. MANDZIUK: Was there any consideration given to the obligation of the contractor to check, on his part? Was there any obligation on the contractor to find out whether this particular quarry was suitable or not?

Mr. WILLIAMS: As I said this morning, this was an exception where we undertook to say "That is where you will get it." Then it became our responsibility, when it otherwise would have been his responsibility.

Mr. HALES: I am sorry to have to come back to this, because I did not think of it earlier; but this approach land which you bought and eventually found to have rock on it for this job, from whom was it bought, and what price was paid for it?

Mr. WILLIAMS: It was purchased by the crown from Mr. John Jacob McLeod of New Haven; and the price was \$6,270. It was an expropriation.

Mr. HALES: That seems to be in order; first—how many people tendered on this first contract, and was the lowest tender accepted?

Mr. LALONDE: Nine people tendered, and the lowest tender was accepted.

Mr. HALES: So it is pretty much the one point, an error in judgment on this particular piece of property, where the department said there was rock, while in fact there was no rock; and the man who said there was rock there was your district engineer, and this mistake cost the taxpayers of Canada \$95,000.

Mr. WINCH: I have a question which I think is important, at least it is to me. Is it general policy of the public works department that if a contract bid is accepted and a contract awarded, and then because of an error in judgment of the department the contractor is unable to complete his contract, he is then paid off on the basis of his costs plus ten per cent profit on his actual costs? Is that a general policy that is applied here?

Mr. WILLIAMS: Yes. You have three alternatives: you may negotiate for an amendment to the contract taking into account the change; or you may negotiate, or if you have to terminate, you can negotiate a lump sum settlement; or, if you cannot make a satisfactory negotiation, you may pay the contractor on a cost-plus basis, that is, cost plus ten per cent.

Mr. WINCH: Is it always cost plus ten per cent?

Mr. WILLIAMS: That is right. The ten per cent is for overhead, not profit.

Mr. WINCH: I have worked on jobs over 35 years where it is T.M. plus time and material plus. Is cost not the same thing?

Mr. WILLIAMS: Costs are defined as being the actual cost.

Mr. WINCH: Is it not the T. and M.?

Mr. WILLIAMS: Time and material, yes it is essentially that.

Mr. WINCH: Plus ten per cent?

Mr. WILLIAMS: Yes.

Mr. WINCH: So it is ten per cent profit.

Mr. WILLIAMS: No, the ten per cent is to cover his overhead such as insurance, workmen's compensation, and so on. If there is a mark up in it I suppose, there is some profit.

Mr. WINCH: I always understood that T. and M. meant all the cost of the contractor plus.

Mr. WILLIAMS: It depends on the definition of costs.

Mr. WINCH: Even in compensation you can go as high as 6 per cent alone; especially on quarry work you can go to 6 per cent.

Mr. WILLIAMS: Under wages yes.

Mr. BOYLE: In a construction contract the cost formula is defined as costs acceptable in a settlement of this kind. It is the time of persons who are employed directly on site.

Mr. WINCH: I do not know about Ontario, but in most provinces there must be vacation pay, compensation, and so on included. Are they not included as being costs of the contract?

Mr. BOYLE: Yes, but in addition there is ten per cent to cover the head-office costs, and there is no provision for anticipated profit or loss of profits.

The CHAIRMAN: Have your officials any other information available?

Mr. LALONDE: Yes. We were given instructions in a letter from Assistant Commissioner Perlson of the R.C.M.P. on January 10, 1958, to expropriate the Markham site, and informed that the expenditure had been approved by the treasury board.

Mr. WINCH: These were orders given to public works upon instructions from the Royal Canadian Mounted Police?

Mr. LALONDE: That is right.

Mr. WINCH: I want to be very careful because I want to be fair. Therefore, while you are nominally involved, you had to operate because you had received instructions from the R.C.M.P. through the Minister of Justice.

Mr. LALONDE: That is the way we work most of the time. You see, we are a service department. We are told to do something. We are a construction agency. We may be asked to do something by another department, and the decision has usually been approved by that other department.

Mr. WINCH: Does the Department of Public Works expropriate land at the request of other departments?

Mr. LALONDE: That is right.

Mr. TARDIF: It is unfortunate, because when reading this one would tend to say that the responsibility for doing this was the responsibility of the Department of Public Works. But when we ask questions about it, we find out that the responsibility was that of the R.C.M.P., with the approval of the treasury board.

Mr. HENDERSON: I pointed this out earlier. I drew your attention to this one example, when I said there were circumstances over which they had no control because of the nature of their operation being largely as a service agency.

Mr. TARDIF: Would it be possible to put information of that type in next year's report so that instead of questioning the Department of Public Works we might question the R.C.M.P. or representatives of the treasury board?

The CHAIRMAN: That is an excellent suggestion, Mr. Tardif. We can consider it when we reach our consideration of the report for the House of Commons regarding the non-productive items.

Mr. WINCH: I think this is one point we should be very careful to keep in mind when considering our report.

Mr. HENDERSON: I should like to point out that if you read that paragraph you will note it states:

In April 1960, following a review of the suitability of the Markham site, the conclusion was reached by the force that it was too remote from downtown Toronto—

Are you suggesting I should put that in bold type?

Mr. TARDIF: No, that would not help.

Mr. HENDERSON: This statement is here and we have tried to give the facts.

Mr. TARDIF: The paragraph states that the Department of Public Works purchased this property for the R.C.M.P., and then in the later part of the paragraph you state that the R.C.M.P. decided it was not a suitable location.

Mr. HENDERSON: That is right.

Mr. TARDIF: I do not have a degree in literature, but those words indicate to me that the Department of Public Works is responsible for the mistake yet the R.C.M.P. told the department, as is indicated at the end of your paragraph, that the Department of Public Works should not have purchased that property because it is not suitable. That is the impression I gain in reading that paragraph.

Mr. HENDERSON: That is right.

Mr. WINCH: I think I have the situation clear in my mind but I should like to ask this question to get the information on the record. Mr. Lalonde, do I understand correctly that your department is obligated at any and all times to expropriate property and prepare plans on the instructions of any other department of government?

Mr. LALONDE: If a department has obtained the approval of the treasury board for the construction of a building and the purchase of a site on which to construct it we will on occasion point out, if we have reasons to doubt that we can build the kind of building required on the kind of site suggested, that it is not a good site. Otherwise we do not question the choice of location by another department.

Mr. WINCH: You are obligated to follow through any instructions from a department through the treasury board in respect of expropriation of land; is that right?

Mr. LALONDE: If we think the suggested site is not suitable we do comment on that fact but if the department insists on going ahead I think we are obligated to do so.

Mr. WINCH: Bearing in mind your own words regarding this situation, did you raise any objection to this particular site?

Mr. LALONDE: There was no reason for any objection because we were able to erect the kind of building the R.C.M.P. wanted on that particular site.

Mr. WINCH: I am referring to what you said earlier, that if in your estimation the site chosen by a department is unsuitable you so indicate. Did you question this site for this purpose?

Mr. LALONDE: We did not question this one, no.

The CHAIRMAN: Are there any other questions in respect of non-productive payments or may we now move on to a consideration of paragraph 80, reserving to Mr. Winch the right to ask a question at the end of our meeting, which may or may not be in order? Paragraph 80 reads:

80. Failure to recover, or seek recovery of, cost of remedial work.

The construction of a public building at North Bay, Ontario, to accommodate personnel of a number of departments was substantially completed in April 1957. Because of certain known deficiencies in the work, the final payment to the contractor was not made until December 1957 and his security deposit was released in the following month. In the meantime, the premises had been progressively occupied and, during the winter of 1957-58, the district representative of the Department of Public Works received many complaints from the occupying departments. In March 1958, he informed the contractor of 39 deficiencies which required correc-

tion. Of these, 34 were of a minor nature and were corrected by the contractor but, although over a period of four years he was repeatedly ordered to deal with the remaining items, he refused on the grounds that he had followed plans and specifications. On the other hand, the department took the stand that the repairs were required because of poor workmanship or faulty materials, and the cost of the remedial work would undoubtedly have been withheld from the security deposit had it not been released prematurely.

Early in 1962, because some of the unsatisfactory conditions had created a public hazard, a contract was placed with another contractor for the correction of the outstanding deficiencies. The cost of \$40,156 was charged to the 1962-63 appropriation for "Balances required to complete any projects undertaken in previous fiscal years and for which no specific provision is made in the fiscal year 1962-63" (Public Works Vote 190).

Efforts to recover the cost of the remedial work from the original contractor have not included recourse to legal action.

Mr. HALES: This paragraph refers to a public building in North Bay. I should like to know the tender price paid for erecting this building and why the department released full payment to the contractor before these deficiencies had been corrected?

The CHAIRMAN: Have you any comment in this regard Mr. Lalonde?

Mr. LALONDE: Yes, Mr. Chairman. The contract was in the amount of \$1,347,658 and was awarded to the low bidder, Bennett and Pratt of Weston, Ontario, in December, 1954. It was completed on April 29, 1957.

Mr. HALES: How many firms tendered, Mr. Lalonde?

Mr. LALONDE: When the building was completed there were some deficiencies and there was an argument between the department and the contractor regarding responsibility for the deficiencies. The department claimed they resulted from faulty workmanship on the part of the contractor. The contractor claimed this was not so. The contractor argued that he had lost money. He said he had lost \$172,000 and refused categorically to undertake any repairs. In 1962, another contract was awarded to repair the deficiencies. These negotiations took quite some time and the department eventually felt, because there had been some dispute whether these deficiencies were entirely or only partly the contractor's fault, there could be no successful legal action taken against the contractor for the amount involved.

Mr. HALES: Some things may be easier to say than to execute and I realize that, but you accepted a tender at a certain price to construct the building under specifications prepared by the department, and it was the contractor's obligation to complete that building according to your specifications. The contractor was responsible to complete the building according to your request and he did not, yet you released his security deposit and made the final payment to the contractor in December. The contract commenced in April and the building was substantially completed in 1957. At the end of 1957 you released his security deposit. Can you tell members of this committee why you did not keep the deposit until you were satisfied the job had been properly done?

Mr. WILLIAMS: Up to April of 1957 there were some deficiencies which the contractor did correct. During the following winter additional deficiencies became apparent. These deficiencies showed up between the end of 1957 and April of 1958. We tried to get the contractor to correct these deficiencies. I think we must add that in the atmosphere of getting the previous 34 of 39 deficiencies corrected during that winter we would have been better off had we not released his total security deposit in December of 1957. The district architect or his representative at the time did inspect the building on completion of the correction of those deficiencies and gave a clearance, so we

released the funds. Following that release we were then in the position of having recourse only in terms of legal action. There was a difference of opinion whether the four deficiencies in dispute were design faults or the contractor's faults.

Mr. LALONDE: I may say, Mr. Hales, this case is another one in respect of which there was a separation on the part of the district architect and the department. He had inspected the building and gave a certificate when obviously he should not have done so.

Mr. HALES: The district architect of the Department of Public Works?

Mr. LALONDE: Yes.

Mr. HALES: What do you mean by a separation?

Mr. LALONDE: He resigned from the department.

Mr. HALES: I know in my own case there was a holdback with the consulting architect in a public building, and he was not paid for two to three years after the building was completed. He was not paid until he was sure that it was properly done. There was a holdback there, and it was fixed up even though it did take two or three years. But in this case you went ahead and paid this man before you should have done.

I do not suppose there is much to be gained by pursuing it any further, but what are the largest items in this \$40,000 that were deficiencies in the building? Just give us a few of the largest items.

Mr. WILLIAMS: The major item was the facing stone. There was a leakage. Water leaked in and it froze in that first winter, and it loosened up the facing stone. That was the largest single item. There was also a problem of a similar leakage in some of the flashing on the roof. There was some plaster cracking, I think, and there was some problem in the ventilation. Those were the four major items.

Mr. HALES: Has this firm received any tenders from your department since then?

Mr. WILLIAMS: They have never had any work from us since and, to my knowledge, they have not tendered.

Mr. TARDIF: If they have lost \$172,000 they cannot afford it any more.

The CHAIRMAN: Paragraph 81, Mr. Henderson?

Mr. HALES: Before you proceed, Mr. Henderson, may I ask if the separation was related to this particular incident?

Mr. LALONDE: To that and other things.

Mr. HENDERSON: Paragraph 81 is entitled "Failure to recover part of dredging costs."

81. *Failure to recover part of dredging costs.* It has long been the policy of the Department of Public Works to limit its participation in the cost of dredging access channels from private areas to main channels, to sharing the cost equally with those desiring such access, and not to accept any financial responsibility for dredging slips or berthing areas considered to be of a private nature. A departure from this policy was observed during the year when a payment of \$45,000 was made to the City of Trois-Rivières as a charge to the Public Works appropriation for "Dredging-Maintenance and Operation of Plant and Contract and Day Labour Works" (Vote 150).

In October 1962 the Department of Transport requested the Department of Public Works to undertake dredging in the St. Maurice River in connection with the development of a municipal park and marina by the City of Trois-Rivières. The former Department had already requested quotations for the work involved, from three dredging firms

in the area. The Department of Public Works, in reply, referred to its policy in such matters and stated that it would be prepared to recommend only the sharing of the cost of dredging the access channel, which would mean a departmental outlay of about \$9,000, but that it could accept no financial responsibility for the mooring basin and berthing area associated with the municipal park. The Department also stated that it could not award a contract on the basis of the bids already obtained by the Department of Transport because section 36 of the Public Works Act required that tenders be invited by public advertisement. It suggested, therefore, that the City negotiate a contract for the dredging, with the payment by the Department being in the form of a contribution to the City.

After further representations by the Department of Transport that the Department of Public Works should make a contribution of \$45,000 to the City to cover the full cost of dredging not only the access channel but also the mooring basin and berthing area, the Treasury Board was approached for authority to make the contribution on this basis and such authority was given in January 1963.

As well as being at variance with the policy with respect to sharing dredging costs, the priority of the charge to Public Works Vote 150 is open to question because of the long-standing policy that financial assistance may be given to outside organizations only from parliamentary appropriations specifically provided, or clearly intended for such assistance.

In the opinion of the audit office, this payment, in addition to being at variance with the policy outlined, is open to question because of the charge to public works, vote 150, violating as it does the long standing policy that financial assistance may be given to outside organizations only from parliamentary appropriations specifically provided or clearly intended for such assistance.

I understand that in the departmental view this expenditure did not represent an expenditure in the normal sense but rather an alternative method of carrying out the work which, in the circumstances, the department would have undertaken itself directly or by contract.

Perhaps Mr. Lalonde would care to add something to that, Mr. Chairman.

Mr. LALONDE: I think Mr. Boyle is the financial expert and I will ask him to answer that.

Mr. BOYLE: This is a difficult area for departments, I think, in trying to adhere strictly to the principle that payments in the nature of grants and subsidies must be included in the wording of the vote. We do subscribe to it, of course, and we have a number of votes in which this is made quite clear.

In this particular case, as was indicated by Mr. Henderson, there was a recognition on the part of the department that departmental responsibility could be argued to be involved. Therefore, in other circumstances, we would have undertaken this work on our own account either by entering into a contract on our own account or using our own dredges.

Because of the rather fortuitous and, we thought, favourable circumstances in which we found ourselves, namely that tenders had been called and the prices obtained had been very good, we felt that it was in the public interest to permit those tenders to be acted upon, thereby letting another non-federal agency in effect become the contracting agency, and we would pay the amount.

I think it is at least arguable that this is not in the nature of a subsidy or contribution as is contemplated by the principle that such contributions must receive parliamentary authority.

From another practical point of view, in order to validate the contribution it would have been necessary to introduce a change in our estimates' wording which would, of course, have delayed the processing of the whole project itself.

Mr. TARDIF: If the price is good—I say this because you said that it was, because the price was good that you thought it would be all right to do it—if the price is good, it changes the policy and it allows you to do some dredging on private property?

Mr. BOYLE: It was not entirely a matter of the price being good. Tenders had been sought.

Mr. TARDIF: Were the tenders called for doing some dredging on private property?

Mr. BOYLE: On municipal property, yes.

Mr. TARDIF: Is it not the policy that you do not do any dredging on private property?

Mr. BOYLE: That is the policy, yes.

Mr. TARDIF: Who changes the policy? Who changed the policy in this particular case?

Mr. BOYLE: In this particular case, again, as has been said, the recommendation was put forward by our department to the treasury board, who concurred in the action we proposed.

Mr. TARDIF: Someone in your department recommended that you forgo the established policy and do dredging in this particular case at this particular time on private property?

Mr. BOYLE: Yes, there was a combination of factors which in other circumstances we recognize as federal responsibility. There was a tourist element involved, and also a navigation element and an element of harbour of refuge. The city was embarking on a very large development on their own, and the cost of the dredging in which we were asked to participate was 20 per cent of the cost of the harbour development and less than 7 per cent of the cost of the whole project.

Mr. TARDIF: I am not too interested in the cost. If you are not allowed to do it and you do one per cent, it is wrong; if you do 10 per cent, it is wrong too.

Mr. BOYLE: This is a policy followed by the department, and this was a case in which the department felt there was reason to depart from their policy.

Mr. TARDIF: Mr. Chairman, there is no doubt some policy in some place or other which states that you are not to do dredging on a piece of private property. Is there also in this printed policy—and I am sure it must be printed—the provision that there are exceptions?

Mr. BOYLE: No.

Mr. TARDIF: There are no exceptions?

Mr. BOYLE: No.

Mr. TARDIF: In this case, who was responsible for creating or okaying this exception?

Mr. BOYLE: In the final analysis it was the deputy minister of the department who put forward the recommendation to the treasury board.

Mr. WINCH: Under what authority? If there are no exceptions in the law or in the regulations, under what authority can the deputy minister make the recommendation?

Mr. LALONDE: I think we have to clarify the situation a little here. It is not a question of law. Ever since I joined the department I have found this

business of marinas, dredging, and where the approach area starts and finishes and where the inner berth starts and finishes to be a very difficult and nebulous area of policy.

I think even though there was a policy at the time—and it was definitely a departmental policy—to do certain things and not to do others, it was never written or even confirmed by an act of parliament that this would be an absolute policy. As a matter of fact, at the moment I am in the process of trying to evolve with the departmental officials what we consider could become a practical and applicable policy for tourism, for dredging and all the related problems so that there is no question of law involved. I think we must not condemn what has been done.

Mr. WINCH: It is common sense?

Mr. LALONDE: Yes.

Mr. TARDIF: As a matter of fact there may be no question of law in connection with the dredging, but certainly in some place or other there is a question of law in doing work on private property by any public body. If it does not apply to the federal government it certainly applies to the province, and that is stipulated in the laws of the province. It applies to all the municipalities in Ontario, I am sure; and if it does not apply to the federal government it is time something was done about that, and that should be one of the recommendations.

Mr. LALONDE: As I understand it, it was done on the property by mutual consent of the federal government and the municipality.

Mr. TARDIF: There is no law in the municipality that prevents anyone from doing anything for nothing, but there is a law in municipalities that prevents work on private property for something, and I am surprised that the federal government does not have the same law.

How many times has this exception been applied in the year 1962-63, let us say?

Mr. LALONDE: That is the only case, Mr. Tardif.

Mr. TARDIF: Were there any occasions in 1961-62?

Mr. LALONDE: No.

Mr. TARDIF: Were there any cases before this of which you know?

Mr. LALONDE: No.

Mr. TARDIF: This is the paragraph that establishes the precedent?

I would like to know, Mr. Chairman, who was responsible for giving the direct order that this should be done at the cost of \$45,000?

Mr. WINCH: If I may put it in a different way, because I am interested in what Mr. Tardif says, if it is common sense then that is all right but if there has never been a case like this before, if this is the only time it has ever happened, what was the occasion that made the department, in a common sense approach, say that this had to be done for the first and only time before or since—the only time?

The CHAIRMAN: That is added as an appendix to Mr. Tardif's question.

Mr. TARDIF: May I add one more question, a question I did not have time to ask? Was the cost charged to the Minister of Transport or is it an expenditure of the Department of Public Works, or are we blaming the Department of Public Works for something that the Department of Transport should have done?

Mr. BOYLE: This was a cost to our department.

Mr. TARDIF: But the request came from the Department of Transport?

Mr. LALONDE: The first request came from the Department of Transport.

Mr. WINCH: Now, we are getting to the crux of this. We are going back now to the previous one. Is Mr. Lalonde now saying because of this request

coming from the Department of Transport it was obligatory on the Department of Public Works to do it?

Mr. LALONDE: No, it was not.

Mr. WINCH: I thought the request came from the Department of Transport.

Mr. LALONDE: The request did, yes.

Mr. WINCH: Then why did you do it? This was unprecedented and yet you agreed to do it. This is a very interesting phase. Why did you do it?

Mr. LALONDE: I do not know.

Mr. WINCH: May I ask you, Mr. Lalonde—this is most intriguing—in how many places does the Auditor General report on what the Department of Public Works does because of requests of an obligatory nature from other departments? Are the two examples we have the only two, or are there others? In other words, are you the fall guy for all the departments of the government? Are you the fall guy for all departments?

The CHAIRMAN: Wait a minute, Mr. Winch. The question has been asked.

Mr. LALONDE: I think if we were to look over each and every one of the non-productive payments we will find there are others where we were following instructions from the department involved in getting the accommodation or whatever it is.

Mr. WINCH: I have no other questions but I would like to put on record now that this committee, in drafting its report, should give very serious consideration to the situation that the Department of Public Works finds itself in, in doing things because of demands of other departments.

Mr. TARDIF: Mr. Chairman—

The CHAIRMAN: Mr. Cameron has a question first, Mr. Tardif.

Mr. CAMERON (*High Park*): I think Mr. Henderson has spelled out the case very well. He starts it by saying:

It has long been the policy of the Department of Public Works . . . Then he sets out the policy. Then, having had a request from the Department of Transport the Department of Public Works does not adhere to the policy. Then, the work is not done by the Department of Public Works but by an outside agency. Following that the Department of Transport comes in and says to the Department of Public Works, "We think you should make a contribution of \$45,000". Then, Mr. Boyle suggested certain reasons for the Department of Public Works coming to the conclusion that was a reasonable thing to do, and he mentioned tourism and helping develop the city of Three Rivers, and so on.

I think Mr. Henderson has got down to the point of it, and without going into whether it was a proper or wrong decision it should have been spelled out in the vote exactly what it was for, and then we would have known. That, I think is the whole germ of the complaint. Here is something that was done and it is not properly spelled out in the estimates so that anyone looking through them could inquire and find out what this is all about. Is that not the situation?

Mr. LALONDE: I am quite happy to take this as guidance in the future, Mr. Chairman, because I would hope that we are not going to have to make exceptions to our general policy once we lay it down.

Mr. CAMERON (*High Park*): I would imagine when there is a change in the policy, then the ministerial decision is one that governs it. There has to be a ministerial decision or you would not change your policy. Is that not so?

Mr. LALONDE: That is correct, and it has to be approved by treasury board.

Mr. TARDIF: What I wanted to ask is this. Is there any method by which the Department of Public Works could charge this amount back to the department that ordered it. If the \$45,000 was ordered by the Department of Trans-

port, could there not be a method by which the Department of Public Works would charge that \$45,000 to the Department of Transport?

Mr. LALONDE: This might be the new method once they get this new system of budgeting through, following the Glassco report, where the Department of Public Works always will charge for every service rendered to someone else. In this case we might still carry, even under the new program, the cost of all dredging, no matter who requests it. I think this particular aspect of our work may be charged entirely to us; that is, the whole dredging program.

Mr. TARDIF: Does the Department of Public Works pay for all dredging at this time?

Mr. LALONDE: We pay for the bulk of general dredging done at federal cost but sometimes we have an agreement with the province or a municipality where we do pay for the dredging of the access channel, and we do the rest and they pay us for it.

Mr. TARDIF: That means—and perhaps I misunderstood—that the Department of Public Works pays for the dredging on Department of Public Works property and that they do not pay for the dredging on private property.

Mr. LALONDE: That is right.

Mr. HALES: May I make a comment at this time. With the low water situation in Georgian bay and lake Huron this year, I imagine this will create quite a problem for you?

Mr. LALONDE: We are doing a fair amount of dredging in that area now. We have some contracts in existence and these are being pursued.

The CHAIRMAN: Gentlemen, we have three more items left. What is your wish. Do you want to tough it out and finish it now or come back at 8 o'clock?

An hon. MEMBER: Finish it now.

Mr. HENDERSON: The next is paragraph 82.

Mr. CARDIFF: Will we have to come back at 8 o'clock tonight, anyway?

The CHAIRMAN: No. If we finish these items we are finished. Paragraph 82 reads:

82. *Construction of ferry landing facilities for provincial government.* For a number of years it has been the general policy of the Department of Public Works to regard the landing facilities at either end of a ferry service linking an intra-provincial highway as the exclusive responsibility of the province concerned. Two departures from this policy in 1962-63 attracted attention.

In the early part of the fiscal year the department sought treasury board authority to enter into a contract for major wharf improvements at Les Eboulements, Que. The board noted that a significant part of the proposed expenditure—at least \$100,000 of the accepted tender of \$575,000—would relate to the construction of a loading facility for the ferry service operating between Iles aux Coudres and Les Eboulements, which is subsidized by the Canadian maritime commission. Accordingly, while the board authorized the department to enter into the construction contract, it was suggested that the province of Quebec should be asked to make a capital contribution which would bear a direct relationship to the cost of the facilities being provided in connection with the ferry service. Several months later the department informed the board that the province had shown a reluctance to participate financially in the provision of the improved facilities. The board directed that in future instances of a similar nature the department was to approach the province concerned at the outset and obtain an undertaking regarding “an appropriate financial contribution”, in order that

the board might be "in a more favourable position to assess the merits of the planned work".

In the second case referred to above, tenders were called in 1961 for the construction of terminal facilities at Matane, Quebec, for a proposed ferry service between Matane and Godbout. Treasury board approval of entry into a contract was initially withheld because it was felt that an exception should not be made to the general policy with regard to facilities for intra-provincial ferry operations. Eventually, however "since some commitment had been given to the private interests, on which basis they undertook substantial commitments related to the acquisition of a vessel and the construction of the Godbout terminal", the board reluctantly approved proceeding with the project. They directed, however, that "the expenditure involved was definitely the limit of federal assistance to this service, and wished it to be made very clear that no operation subsidy payment would be made". The terminal facilities were completed during the year under review at a cost of \$171,557.

Notwithstanding the board's previous direction as to the limits of federal assistance to this service, executive authority was granted in August 1963 for entry into a three-year agreement with the company operating the ferry, for a subsidy of \$50,000 for 1963, \$40,000 for 1964, and \$30,000 for 1965, with a recapture clause for amounts earned in excess of \$39,400 per annum.

Mr. HENDERSON: Mr. Chairman, paragraph 82 relates to construction of ferry landing facilities for provincial government.

This paragraph refers to the general policy of the Department of Public Works to regard the landing facilities at either end of a ferry service linking an intra-provincial highway as the exclusive responsibility of the province concerned.

Particulars of two cases are set out in this note. The first relates to major wharf improvements at Les Eboulements, Quebec, to the extent of at least \$100,000, and the other at Matane, involving terminal facilities for a proposed ferry service, at a cost of \$171,557.

The CHAIRMAN: Has Mr. Lalonde or any of his officials any comments to make upon this, or are there any questions to put in respect of this matter?

Mr. CARDIFF: Yes, Mr. Chairman, I think there is. I am not ready to ask one yet but I will be in a minute or two.

The CHAIRMAN: You are giving notice of your intention to put a question.

Mr. CARDIFF: Did the province of Quebec ever make any contribution to this?

Mr. LALONDE: No, Mr. Cardiff.

Mr. CARDIFF: They should have, but they did not.

Mr. LALONDE: At the moment, anyway, our position with respect to this type of wharf where a ferry service is involved, is that we attempt to enforce the policy whereby we consider a ferry service as an extension of a provincial highway. In other words, we consider it for local purposes as transportation by water instead of by road. I am afraid, however, we have not been entirely successful over the years in that policy being accepted by all provinces, and being enforced. I think those are two cases where we could not enforce the policy. However, I would say that in both instances those are public wharves, they are not wharves owned by the ferry services. The ferry has used the wharves but they are still owned by the government.

Mr. CAMERON (*High Park*): Mr. Chairman, it looks to me as though the Department of Public Works is not involved in this at all. We have not the

proper witnesses for this item. We should have before us members of the treasury board and the executives who authorized these departures from this policy if we are to get to the bottom of it. It seems to me the Department of Public Works had no decision whatsoever to make in connection with this.

Mr. TARDIF: They just picked up the tab.

Mr. CARDIFF: But the responsibility lies with the province in the first place. They should have paid it regardless of whether they were asked for it or because it was for their benefit.

The CHAIRMAN: Is there any further comment? Can we pass on to No. 83 which reads:

83. *Cost of constructing additional wharf.* In 1955 the Department of Public Works constructed a wharf at Desbiens, Quebec, at a cost of \$10,828. While title to the site of the wharf had been acquired by the Department, control of the approach remained vested in the municipality, which undertook to maintain the roadway at its own expense. In 1958 the department was requested to provide a new wharf at Desbiens, at a location approximately 1,000 feet distant from the structure built in 1955, because access to the existing wharf had been closed to the public by the municipal authorities. The department was not prepared to expropriate the approach to the existing wharf because of local feeling nor was it prepared to build a new wharf, and matters were allowed to stand until 1961. In that year, without having sought or obtained the approval of the Treasury Board, the department agreed to build a new wharf at the site suggested in 1958, provided it could obtain clear title to all the necessary properties, and in March 31, 1963 costs of \$11,808 had been incurred. In the meantime, efforts to sell the first wharf for its salvage value, through Crown Assets Disposal Corporation, were unsuccessful.

Mr. HENDERSON: Paragraph 83 deals with the cost of constructing an additional wharf. This paragraph describes how the department constructed a wharf at Desbiens, Quebec, in 1955 at a cost of \$10,828. Three years later the department was requested to provide a new wharf which it did in 1961 and 1962 at a cost of \$11,808. Efforts to dispose of the first wharf were unsuccessful.

The CHAIRMAN: Is there any comment on this or any questions from members of the committee?

Mr. HALES: They got a good price on the second wharf.

The CHAIRMAN: Can we pass on to the last item, paragraph 96?, as follows:

96. *Identical tenders.* In Paragraph 114 of last year's report (and in paragraph 77 of the 1961 report) reference was made to identical bids received by the Department of Public Works for the supply of incandescent lamps and fluorescent tubes to meet the needs of various federal buildings throughout Canada. Last year, after commenting on other cases of identical tenders which had also been observed in our examination of departmental records during the year then under review, it was stated that we had suggested to officers of the combines branch that it might be desirable were all identical tenders received by government departments, Crown corporations and other agencies to be listed each year by the combines branch in the annual report made by the director of investigation and research to the Minister of Justice under section 44 of the Combines Investigation Act.

Following the tabling of my 1962 report, the director informed us that he did not feel that he would be justified in accepting this suggestion. His view was that where certain economic facts exist, such as

"a relatively small number of sellers and a homogeneous product", identical tenders or prices of themselves are not sufficient evidence of collusion to warrant commencing an inquiry, and he felt that the publication of identical tenders received by departments and agencies of the crown might lead to an assumption on the part of the public that they were to be regarded with suspicion, and were published because they raised some serious question as to their legality under the Combines Investigation Act. He was accordingly unwilling to take the initiative in providing details which might give rise to such an inference and felt that the adoption of a policy of publishing identical tenders in some form would be a matter for the government rather than the director to decide.

Since the close of the year under review, the Treasury Board has expressed concern to departments that equally low bids in respect of a number of products frequently come to its attention and has indicated an intent to give further consideration to the situation. On November 14, 1963 the Board decided that a uniform policy should be established and to that end directed that, in future, when identical bids are received, all proposed contracts, regardless of amount, should be referred to the Board for selection of the contractor. The Board stated that the only products which are exempt from this procedure are milk products where prices are controlled by provincial authorities.

Mr. HENDERSON: The last item is on identical tenders. As this note indicates, I had reported on this subject in my 1962 report under paragraph 114 and in my 1961 report under paragraph 77.

The subject matter of these two references in those years was discussed by the committee at its sessions last November and December. A lengthy discussion took place on December 2, 1963, following which it was decided to ask Mr. D. H. W. Henry, director of investigation and research under the Combines Investigation Act, to appear as a witness. Mr. Henry appeared before the committee on December 6, 1963, and, as members will recall, made a lengthy statement on the policy of his office in dealing with cases of identical tenders. The committee, however, made no recommendation on this subject to the house in tabling its fourth report on December 19, 1963.

As my initial reporting on this subject was based on the experience of the Department of Public Works in its procurement of incandescent lamps and fluorescent bulbs, members may have some questions to put to Mr. Lalonde today. It will be recalled that in 1961 I had shown how the department had called for tenders to meet the needs of the various federal buildings throughout Canada for the fiscal year 1961-62, and how, based on the application of unit prices to estimated quantities, identical bids of \$301,191.16 were received from the three companies submitting the lowest complete tenders.

During the next year, the Department of Public Works called for tenders again for the supply of incandescent lights and fluorescent tubes which it was estimated would be required during the two year period commencing April 1, 1962. The department hoped that the longer term contract might result in a more competitive set of quotations and in one firm quoting lower than the others. When the tenders were opened it was found that the same three firms that had submitted the identical low bids for 1961-62, had again submitted identical low bids in the amount of \$645,264.16.

I do not know what the present situation is in this regard in the Department of Public Works but perhaps Mr. Lalonde will say something about it. I might just say, Mr. Lalonde, that this was a subject of a meeting and discussion with your predecessor in office who was quite concerned at being on the receiving end of these particular tenders.

Mr. TARDIF: What is the practice in a case like this? Do you divide the contract three ways?

Mr. LALONDE: No, Mr. Tardif, we submit the quotations to the treasury board and ask them for their decision.

Mr. TARDIF: Does the treasury board give the total amount to one firm?

Mr. LALONDE: They used to, but this year we did something which I might perhaps explain to the committee. As Mr. Henderson has pointed out, we are concerned about this. We do not know exactly what the answer is. The Auditor General has said we went from a one year to a two year contract hoping it would be attractive enough to make it competitive. The last tenders that we received on this kind of material were from three firms who tendered on everything. This request included incandescent lamps of two types and fluorescent tubes. The bulk of the order was for fluorescent tubes. We found that the three major firms who tendered on everything were just about identical. We then tried a new thing.

There were other people who submitted tenders on parts of the contract because those firms were not large enough to tender on everything. We broke the tenders down into three groups. We awarded one part of the contract on the incandescent lamps to a smaller firm who had tendered a lower price for those than the larger firms. They got that portion of the contract. Of course, our recommendation went to the treasury board and was approved by the treasury board and the orders were placed accordingly. Then there was another order for miniature lamps and electronic tubes on which Westinghouse produced the lowest figure. We gave them the order on this one. On the fluorescent tubes the three firms who had quoted a price, that is Westinghouse, Sylvania and General Electric, came up with identical tenders. We therefore went to the treasury board and we pointed out that one of the firms which had not received the contract in a previous year was in an area which they called a "manpower surplus area". On the basis of that recommendation the treasury board approved the award to that firm.

Mr. TARDIF: Some of the firms you mentioned were fined in the United States for price fixing. I am wondering whether your department sent that information to the Department of Justice and asked them to find out whether there had been any price fixing in Canada.

Mr. LALONDE: We had done this every time.

Mr. WINCH: Was there any reason given why the combines branch of the Department of Justice arrived at no conclusion with respect to a contract of over \$100,000 which received identical bids?

Mr. LALONDE: I am not sure whether the reason is that there is no collusion or that they cannot prove it, but so far no action has been taken.

The CHAIRMAN: I should say here that Mr. Henry appeared before the committee and was questioned. His reasons, as he assigned them, are contained in the transcript of last year's proceedings. We questioned him on this particular issue.

Are there any further questions on this? It is agreed.

Mr. LALONDE: I have here copies of the new contracts for which the members asked. There is a copy for everyone.

The CHAIRMAN: They will be distributed to the members of the committee.

On behalf of the committee I wish to thank Mr. Lalonde, Mr. Williams and Mr. Boyle and other officials for coming here and giving us this information.

Next Tuesday we will have our last meeting and our witnesses will be from the Canada Council.

We will now adjourn until 9:30 a.m. Tuesday.

APPENDIX 1

DEPUTY MINISTER OF TRANSPORT
SOUS-MINISTRE DES TRANSPORTS
OTTAWA, CANADA

July 20, 1964

Mr. G. W. Baldwin, M.P.,
Chairman,
Standing Committee on Public Accounts,
Room 534 C,
House of Commons,
Ottawa.

Dear Mr. Baldwin:

In response to questions put to officials of the Department of Transport when appearing before the Standing Committee on Thursday, July 16th, I would advise that—

1. The names of the original Directors of Air Food Caterers at the time a tender was submitted in May, 1960, were as follows:

Messrs. Lionel Paquette, President; Jean-C. Fournier, Vice President; Henri Belanger, Vice President; Rolland Desroches, Treasurer; Guy Moreau, Secretary; Rolland Desjardins, Lt. Paul A. Fournier, Paul H. Lapointe, Arthur St. Arnaud, Claude Danis, Lucien Belanger, Lt. J. Louis Fontaine M.C.

2. The liquor licence was first issued on February 22, 1961.

3. The \$31,000 was paid to the Department on February 28, 1964, and the company is up to date on all current payments.

Yours sincerely,

G. A. Scott,
Acting Deputy Minister.

APPENDIX 2

DEPARTMENT OF NATIONAL DEFENCE

OTTAWA 4, July 22, 1964.

Mr. G. W. Baldwin, M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa, Ontario.

Dear Mr. Baldwin:

At a recent meeting of the Public Accounts Committee information was given on the operating costs for the Department of National Defence schools in Canada, grants received from Provinces and the pupil population in our schools. It was requested that the figures be broken down by Provinces and I attach as Appendices "A" and "B" a distribution of the costs, grants received and the pupil population by Provinces.

Yours sincerely,

E. B. Armstrong,
Deputy Minister.

"A"

DND SCHOOLS CANADA

	<i>Expenditures</i>	<i>Grants</i>
Newfoundland	243,630	
Nova Scotia	1,105,662	
New Brunswick	216,500	
Prince Edward Island ..	150,200	
Quebec	1,721,546	37,918
Ontario	4,779,927	2,212,019
Manitoba	1,578,781	97,378
Saskatchewan	393,545	6,800
Alberta	2,058,818	407,950
British Columbia	534,284	48,500
Yukon	406,792	
	<hr/>	<hr/>
Total	13,189,685	2,810,565
	<hr/>	<hr/>

"B"

DND SCHOOLS CANADA

	<i>Pupil Population</i>
Newfoundland	642
Nova Scotia	4,043
New Brunswick	850
Prince Edward Island	500
Quebec	3,312
Ontario	12,785
Manitoba	2,972
Saskatchewan	663
Alberta	4,312
British Columbia	1,358
	<hr/>
Total	31,437
	<hr/>

APPENDIX 3

DEPUTY MINISTER OF PUBLIC WORKS

OTTAWA 8, July 23, 1964.

Mr. G. W. Baldwin, M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa, Ontario.

Dear Mr. Baldwin:

At this morning's meeting of the Public Accounts Committee, the question was asked as to the breakdown of the claim and the payments in connection with Item No. 12—"Construction of Surveys and Mapping Building, Ottawa".

The information is attached hereto.

Yours sincerely,

Attachment.

Lucien Lalonde.

<i>General Contractor</i>	<i>Claim</i>	<i>Recommendation</i>
(a) Financing	\$ 21,195.64	Nil
(b) Job office rental	2,003.78	\$ 2,003.78
(c) Supervision and General Ex- pense	38,387.94	28,387.94
(d) Fire insurance	1,980.30	1,980.30
(e) Temporary light and power .	1,857.07	1,857.07
(f) Temporary heat	17,627.11	17,627.11
(g) Plant rentals	5,541.48	5,541.48
(h) Hoist operator	2,176.96	2,176.96
(i) Small tools	2,332.29	2,332.29
(j) Increased labour rates	5,289.26	5,289.26
(k) Travelling expenses	1,097.44	371.05
(l) Contract Dept. costs	6,405.45	Nil
(m) Accounting Dept. costs	3,783.50	Nil
(n) I.B.M. (Payroll) Dept. costs .	3,402.00	3,402.00
	<hr/> \$113,080.22	<hr/> \$ 80,969.24
<i>Sub-Trades</i>		
(o) Kolostat Heating	9,169.53	8,757.15
(p) Winer and Chazanoff	11,199.00	10,135.13
(q) Meco Electric	34,594.16	28,676.47
Totals	<hr/> \$168,042.91	<hr/> \$128,537.99
10% overhead		12,853.80
		<hr/> \$141,391.79

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 18

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Canada Council—March 31, 1962 and
March 31, 1963

INCLUDING FOURTH REPORT TO THE HOUSE

TUESDAY, JULY 28, 1964

WITNESSES:

Hon. George Hees; Mr. G. A. Scott, Acting Deputy Minister, Department of Transport; and *From the Canada Council*; Mr. Jean Martineau, Q.C., Chairman; Mr. Marcel Faribault, Member; Mr. Trevor Moore, Member; Dr. A. W. Trueman, Director, and Mr. E. Bussière, Associate Director; Mr. Peter M. Dwyer, Assistant Director (Arts). And Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Grégoire,	Prittie,
Cameron (<i>High Park</i>),	Gray,	Regan,
Cardiff,	Harkness,	Rinfret,
Choquette,	Horner (<i>Acadia</i>),	Rock,
Côté (<i>Chicoutimi</i>),	Leblanc,	Rondeau,
Crouse,	Legault,	Ryan,
Danforth,	Lessard (<i>Saint-Henri</i>),	Smith,
Drouin,	Loiselle,	Southam,
Dubé,	Mandziuk,	Stefanson,
Fane,	McLean (<i>Charlotte</i>),	Stenson,
Fisher,	McMillan,	Stewart,
Forbes,	Muir (<i>Lisgar</i>),	Tucker,
Francis,	Nowlan,	Wahn,
Frenette,	O'Keefe,	Whelan,
Gendron,	Pigeon,	Winch—50.
Grafftey,	Pilon,	

M. Slack,

Clerk of the Committee.

CORRECTIONS

Minutes of Proceedings and Evidence No. 14

TUESDAY, July 14, 1964

Page 603—line 15; should read:

“uniformity” instead of “unification”

lines 17 and 18; should read:

“Our man is at fault” instead of

“our man is not at fault”

ORDER OF REFERENCE

MONDAY, July 27, 1964

Ordered,—That the Standing Committee on Public Accounts be empowered to engage an accountant and clerical personnel, as it may deem necessary for the purpose of its inquiry and relevant investigations arising from its study of the Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

REPORT TO THE HOUSE

TUESDAY, July 28, 1964

The Standing Committee on Public Accounts has the honour to present the following as its

FOURTH REPORT

1. On April 10, 1964 the members of your Committee were appointed.
2. On May 22, 1964 the House passed the following resolutions:

Ordered,—That the Reports of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963, tabled on October 10, 1962 and on July 11, 1963 respectively be referred to the Standing Committee on Public Accounts in order to provide for a review thereof pursuant to section 23 of the Canada Council Act.

Ordered,—That the Public Accounts, Volumes I, II and III for the fiscal years ended March 31, 1962 and March 31, 1963, and the Reports of the Auditor General thereon, tabled on January 21, 1963 and on February 19, 1964 respectively, together with the financial statements of the Canada Council for the fiscal years ended March 31, 1962 and March 31, 1963 and the Reports of the Auditor General thereon, tabled on October 10, 1962 and on July 11, 1963 respectively, be referred to the Standing Committee on Public Accounts.

3. Your Committee held its organization meeting on April 30, 1964 and unanimously elected as Chairman, Mr. G. W. Baldwin, a member of Her Majesty's Loyal Opposition. Mr. Paul Tardif was elected Vice-Chairman. At the next meeting on May 26, 1964 the Chairman announced the composition of the Sub-Committee on Agenda and Procedure as follows: Messrs. Baldwin, Tardif, Ryan, McMillan, Hales, Winch and Côté (Chicoutimi).

4. Your Committee held eleven meetings during the period from May 26, 1964 to June 30, 1964, in the course of which there were in attendance Mr. Louis Richard, President and General Manager of Crown Assets Disposal Corporation, Dr. G. F. Davidson, Secretary of the Treasury Board, and the following from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General; Mr. George R. Long, Acting Assistant Auditor General; Mr. B. A. Millar, Audit Director; Mr. A. B. Stokes, Audit Director; Mr. D.A. Smith, Audit Director; Mr. J. R. Douglas, Audit Director; Mr. H. G. Crowley, Mr. S. E. Chapman, Mr. L. G. Sayers, Mr. A. Harris, Mr. J. M. Laroche, Mr. T. S. Hogan, Mr. G. Laframboise.

5. The following is a progress report made on the work done by your Committee up to and including the meetings held on June 30, 1964.

6. In the course of its meetings your Committee gave consideration to (a) the action that had been taken by departments and other agencies as a result of recommendations made by the Committee in its Fourth Report 1963, and (b) the Report of the Auditor General for the fiscal year ended March 31, 1962 in respect of paragraphs 75 to 201, inclusive, and paragraphs 1 to 48 and paras 50, 93, 94 and 95 of the Report of the Auditor General for the fiscal year ended March 31, 1963.

Action taken by departments and other agencies as a result of recommendations made by the Committee in its Fourth Report 1963

7. A memorandum dated May 15, 1964 was filed by the Auditor General (Minutes of Proceedings, pp. 25-33) reporting on the action that had been taken by departments and other agencies in this regard.

8. The Committee noted that action had been taken by departments and other agencies concerned with respect to only 3 of the 10 cases where recommendations had been made by the Committee in its Fourth Report 1963.

9. In this connection your Committee had requested each deputy minister concerned to advise the Auditor General within three months of the date on which its Fourth Report 1963 was presented to the House (December 19, 1963) as to what action had been taken on matters on which the Committee had made recommendations in its report. Although there were a few exceptions, the majority of the deputy ministers concerned failed to respond to the suggestion. Your Committee attaches particular importance to having an effective follow-up of the Committee's recommendations and believes that this should henceforth be a standing requirement with respect to any and all recommendations made by the Committee in these reports. It accordingly requests the Minister of each department concerned to advise the Auditor General within three months as to what action has been taken on matters on which the Committee has made recommendations in this and future reports. In order that the matter cannot be overlooked, your Committee requests that the Auditor General provide to each such Minister a copy of this and each subsequent report of the Committee to the House of Commons.

Findings of the Royal Commission on Government Organization

10. The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations as, for example, through the medium of internal auditing.

11. By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings can be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to enquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be and is the sole responsibility of management.

12. With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving

efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

The Form and Content of the Estimates

13. In its Third Report 1963 tabled in the House on December 19, 1963, the Committee made the following immediate recommendations under paragraph 3:

- (a) Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.
- (b) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.
- (c) Presentation of additional information in the Estimates concerning the staff of all government departments and the Crown corporations and other public instrumentalities referred to under clause (b) above:
 - (i) the number of employees actually on the payrolls at the latest date available during the course of the Estimates preparation; and
 - (ii) brief notes explaining proposed major increases in the size of establishments.

14. The Committee recommended the adoption of as many of the foregoing improvements as might be practicable in the Main Estimates for 1964-65 and has since noted that adoption of the revised vote pattern under (a) above was introduced by the Treasury Board into the Main Estimates for 1964-65 tabled by the Minister of Finance in the House on March 3, 1964.

15. The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee. He stated that the Minister of Finance does propose to present the additional staff information recommended by the Committee under (c) above in the Main Estimates commencing with those for the fiscal year 1965-66.

16. The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve.

17. The Committee also recommends to the House that consideration be given to referring the departmental Estimates in greater numbers to the Standing Committee on Estimates so that it might examine them in detail and report back thereon to the House. It believes such a procedure would not only accele-

rate the work of the House but contribute materially to improving parliamentary control of public funds before those funds are committed or spent.

Living allowances to federally-appointed judges

18. In its Fourth Report 1963 the Committee noted that in cases where federally-appointed judges are appointed from time to time as conciliators or arbitrators on boards, they are paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs.

19. The Committee stated that it was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It therefore recommended that if additional remuneration was to be paid to judges appointed for the purposes described above, the approval of Parliament for payment of such additional remuneration should be sought.

20. Despite this recommendation, a case has since been noted by the Committee where a rate of \$100 a day was approved on May 7, 1964 under authority of the Treasury Board and the Governor in Council on the recommendation of the Department of Labour.

21. The Committee reiterates the recommendation made in its Fourth Report 1963 that if additional remuneration is to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought.

Governor General's special warrants

22. In view of the report of the Auditor General, your Committee recommends that a study be made of Governor General's warrants.

Remission of sales tax on oleomargarine

23. The Committee was concerned to learn that the undertaking given in 1949 that

The Canadian Government will be prepared to submit to Parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada

had not been carried out. Instead, the authority provided to the executive by section 22 of the Financial Administration Act had been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

24. The Committee does not consider that section 22 of the Financial Administration Act should be used in this way.

Advertising costs

25. The Committee noted that an arrangement with the Canadian Daily Newspapers Association which had existed prior to 1954 whereby government advertising enjoyed a special rate had been allowed to lapse, and was pleased to learn from the Secretary of the Treasury Board that the negotiation of advertising contracts is to be centralized in the Department of Defence Production.

26. The Committee would appreciate being informed by the Auditor General in his next follow-up report as to the progress made with respect to this matter.

Cost of gasoline used in departmental vehicles at Ottawa

27. The Committee considered with the Auditor General and the Secretary of the Treasury Board the matter of savings which might result from changes in the manner of procuring gasoline for departmental motor vehicles.

28. This matter was first brought to the attention of the Secretary of the Treasury Board by the Auditor General in May 1961, and in his 1962 Report the Auditor General stated that he had been informed in September 1962 that a study by the Government Motor Vehicle Committee of the feasibility of supplying gasoline and oil for all government vehicles in Ottawa from a central supply depot was almost complete and that a presentation was to be made to the Treasury Board in the near future.

29. The Committee learned from the Secretary of the Treasury Board that an alternative means of effecting savings in the purchase of gasoline was presently being considered. Having in mind the time which has elapsed since this matter was first taken under consideration, the Committee urges the Secretary of the Treasury Board to have the matter finalized at the earliest possible date. The Committee further requests that the Secretary of the Treasury Board provide it in due course with information as to the final decision in this matter and also as to the various alternatives which were considered and, with respect to those which were rejected, the reasons for such rejection.

Educational leave costs

30. The Committee considered, with the assistance of the Auditor General and the Secretary of the Treasury Board, the desirability of having all costs of financial assistance to persons on educational leave assembled in one place so that Parliament might be better informed as to the total cost of this particular phase of the educational program designed to increase the capacity of public servants.

31. The Committee recognizes that this particular class of leave differs from vacation leave and sick leave in that it is available only to specially selected members of the public service and may be granted for periods up to three years. It also recognizes that the costs involved are in a special category in that they represent payment of allowances in lieu of salary, fees and expenses of public servants who are attending universities or other institutes in order to improve their scholastic standing. These costs differ materially from costs involved in courses and in-service training provided within the government organization itself.

32. The Committee was pleased to hear the Secretary of the Treasury Board undertake to have a study made of this matter and requests the Auditor General to keep it informed as to the progress being made.

Payment of maintenance expenses of Civil Service Recreational Association Centre

33. The Committee noted that grants or other forms of financial assistance to non-governmental organizations should be made only from parliamentary appropriations specifically provided or clearly intended for such purpose. However, maintenance expenses of a recreational centre operated by the Civil Service Recreational Association, a privately managed staff organization at Ottawa, had been charged for several years to a Public Works appropriation for "Maintenance and Operation of Public Buildings and Grounds".

34. The Committee is of the opinion that Treasury Board should give consideration to a re-wording of the Estimates to deal with problems arising out of non-governmental organizations receiving financial assistance.

Unemployment Insurance Fund and its administration

35. The Committee reviewed the summaries of the operations of the Unemployment Insurance Fund contained in the Report of the Auditor General for the fiscal year 1961-62 with particular reference to the cost and size of its administration and the manner in which claims are verified before payment. In its Fifth Report 1961, the Committee, having expressed concern over the sharp reduction in the balance of the Fund at that time, had recommended "that the entire matter undergo immediate and careful study and that action be taken to re-establish and maintain the Fund on a basis consistent with insurance principles." Following this recommendation, a special Committee of Inquiry was established by the Governor in Council on July 17, 1961 to inquire into and report upon the suitability of the scope, basic principles and provisions of the Unemployment Insurance Act, including its relationship to other social security programs, the measures needed to deal with seasonal unemployment and the means of correcting any abuses or deficiencies that might be found to exist. The Committee's report was tabled in the House of Commons on December 20, 1962.

36. The Committee feels it to be in the public interest that the government's consideration of the report of the Committee of Inquiry be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

37. The Committee also reiterates the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

Subsidies

38. Reference was made by the Committee in its Fourth Report 1963 to a listing prepared annually by the Treasury Board staff for the information of the Board showing the provision in the Estimates for grants, subsidies and special payments for the period 1959-60 to 1962-63, inclusive. Copies of the listing were made available to the members of the Committee while in session.

39. In recording its appreciation of the courtesy of the Secretary of the Treasury Board in making this useful information available to the members in this manner, the Committee requests that similar listings be made available to the members of the Committee for the fiscal year 1964-65 and annually thereafter.

Board of Grain Commissioners

40. In its Fifth Report 1961 the Committee had stated that it felt concerned that in each year since 1953-54 the expenditure of this activity had exceeded its revenue by more than \$1 million and it requested the Auditor General to keep this matter under review and report thereon to the Committee in due course.

41. The Committee learned from the Auditor General that he had been advised by the Deputy Minister of Agriculture that effective August 1, 1965, the Board of Grain Commissioners proposes to amend its regulations to increase inspection and weighing fees by 50% in order to enable the Board to meet expenditures involved in providing these services. The Committee noted that the Board had had in mind a revision of these fees for the present crop year but due to the very narrow margin in which the grain trade was operating

under the current international agreement, it was not considered equitable to announce changes after those contracts had been entered into.

Prairie Farm Assistance Act

42. The Committee was advised by the Auditor General that due to staff limitations he had only been able to carry out one test audit of expenditures under the Prairie Farm Assistance Act in western Canada since 1957.

43. The Committee expressed the view that expenditures under this Act require that a test audit be carried out at least once a year and was glad to receive assurance from the Auditor General that he expects his staff arrangements will enable this to be done commencing with the 1964-65 fiscal year.

Office of the Auditor General

44. At its request, the Auditor General brought the Committee up to date on the progress of his staff recruitment under the arrangement outlined in the Committee's Fourth Report 1963 to the House on December 19, 1963.

45. Members of the Committee were disturbed to find that the actual working strength of the Office had only increased from 159 to 161 between the period November 30, 1963 and April 30, 1964 due to delays which had developed in the procedures of the Civil Service Commission and the Treasury Board in connection with recommendations made by the Commission that revised rates of pay and new classes be established for the existing Auditor strength. Consequently, the Office remained 18 auditors short of the total approved establishment of 179 originally agreed to with the Minister of Finance and the Treasury Board in July 1960, or four years ago.

46. In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

47. The Committee believes that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and the Crown corporations generally. The Auditor General informed the Committee that the recruitment outlook is currently satisfactory and that, barring any unforeseen developments, he believes that he can fill his presently approved staff establishment under existing arrangements by the end of the year. The Committee has therefore asked him to render a further report on this situation in due course.

48. The Committee has noted that amendments to the Financial Administration Act are to be introduced in due course and believes appropriate amendments should be considered at that time designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office.

A copy of the relevant Minutes of Proceedings and Evidence (Nos. 1 to 10 inclusive) is appended.

Respectfully submitted,

G. W. BALDWIN,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, July 28, 1964.
(30)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Choquette, Danforth, Fisher, Francis, Gray, Hales, Horner (*Acadia*), Leblanc, Loisel, Mandziuk, McLean (*Charlotte*), O'Keefe, Pigeon, Prittie, Regan, Rinfret, Rock, Rondeau, Ryan, Southam, Stenson, Stewart, Tardif, Tucker, Wahn, Whelan (28).

In attendance: The Honourable George Hees; Mr. G. A. Scott, Acting Deputy Minister, Department of Transport; and *From the Canada Council:* Mr. Jean Martineau, Q.C., Chairman; Mr. Marcel Faribault, Member; Dr. C. J. Mackenzie, Member; Dr. A. W. Trueman, Director; Mr. Eugène Bussière, Associate Director; Mr. Peter M. Dwyer, Assistant Director (Arts); Miss Lillian Breen, Secretary-Treasurer; Mr. David W. Bartlett, Acting Secretary General of Canadian National Commission for Unesco; Mr. Lewis Perinbam, Secretary General of Canadian National Commission for Unesco (presently on leave of absence); Mr. Douglas H. Fullerton, Investment Consultant; and Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Hayes and Laroche of the Auditor General's office.

Pursuant to a resolution of the Committee of July 23, regarding paragraph 87 of the 1963 Report of the Auditor General, the Chairman made a brief statement and then introduced the Honourable George Hees.

Mr. Hees made a statement relating to the contract for restaurant facilities in the Montreal International Airport and was examined thereon, assisted by Mr. Scott.

The questioning of Mr. Hees being concluded, he was thanked by the Chairman and permitted to retire.

The Chairman then called Mr. Jean Martineau, Q.C., who after introducing the members of his Canada Council delegation, made a brief introductory statement.

The Auditor General reviewed his 1962 and 1963 long form reports to the Canada Council which were ordered to be taken as read and included in this day's evidence.

At 12.15 p.m., the Committee adjourned until 3.30 p.m. this afternoon.

AFTERNOON SITTING

(31)

The Committee resumed at 3.35 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Choquette, Fisher, Francis, Grégoire, Hales, Leblanc, McLean (*Charlotte*), O'Keefe, Pigeon, Prittie, Rinfret, Rock, Rondeau, Ryan, Southam, Tardif, Tucker, Wahn (21).

In attendance: (Same as at morning sitting with the addition of Mr. Trevor Moore, Member, The Canada Council, and with the exception of Messrs. Hees and Scott.)

The Chairman tabled a letter from the Deputy Minister, Department of National Defence, supplying information requested by Mr. Winch at sitting of July 14; this letter was ordered printed as an Appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix*).

Mr. Tardif made a brief statement regarding the Subcommittee inquiring into the matter of surplus materials.

Mr. Faribault was examined on the allocation of interest and profits accumulated in the University Capital Grants Fund and elaborated on the interpretation of sections of the Canada Council Act related thereto. Mr. Henderson was also examined on this subject.

Dr. Trueman was then examined on various aspects of the Canada Council operations, assisted by Messrs. Martineau, Moore, Fullerton, Dwyer and Busière.

At 4.40 p.m., the Vice-Chairman took the chair.

The questioning of the witnesses being concluded, at 6.15 p.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

Note—The evidence, adduced in French and translated into English, printed in this issue, was recorded by an electronic recording apparatus, pursuant to a recommendation contained in the Seventh Report of the Special Committee on Procedure and Organization, presented and concurred in, on May 20, 1964.

EVIDENCE

TUESDAY, July 28, 1964.

(Text)

The CHAIRMAN: Gentlemen, I believe I see a quorum present. The meeting will come to order.

In accordance with our agenda, this morning we were to deal with the report of the Canada Council and its financial statement. I am pleased to advise that as a result of arrangements the gentlemen who are interested in that organization, including the chairman and other officials, are here and we will be proceeding with that business in due course. However, pursuant to instructions of the committee which were given as a result of a resolution last Thursday, I wrote Mr. George Hees who had been the minister of transport at the time a certain contract had been let, which contract was the subject of a discussion before this committee a week or ten days prior to that. Before my letter had reached Mr. Hees, I received a telephone call from him asking whether it would be in order for him to appear before the committee to discuss the matter we had before us. Having in mind that this would be our last open meeting for some weeks, and having in mind that this is the only time this could be arranged, I felt the committee would wish me to express assent to this proposition, and I so indicated to Mr. Hees.

I did discuss the matter individually with a majority of the members of the steering committee who concurred in this action. Therefore, hope with the approval of the members of the committee and the pardon of the members of the Canada Council who are here, we may trespass lightly on the time allotted to the Canada Council in order that we might hear from Mr. Hees in connection with this particular matter.

I will now ask Mr. Hees to make a statement. I do not think I really need to introduce the Hon. George Hees, president of the Montreal and Canadian Stock Exchanges. Mr. Hees for many years has been a familiar figure around here as a member of parliament, minister of transport, and minister of trade and commerce.

Hon. George HEES: Thank you very much, Mr. Chairman. I think, perhaps, I might start by very briefly going over for the benefit of the committee the two types of restaurant which we have in our large airports across Canada, and in respect of which the department from time to time calls for tenders from those who would like the privilege of operating these restaurant concessions. The first type is one with which you are all familiar; it is the cafe or snack bar type which does not sell liquor. It is inexpensively decorated, inexpensively operated, and as a consequence a facility of this kind has a relatively low overhead. The operators of a facility of this kind make their profit on the sale of food and non-alcoholic beverages.

The second type of facility which we have at our larger airports is one with which you also are familiar since I feel sure you have been in these in all parts of the country, in our large airports, in hotels, and in international airports around the world; this is the dining lounge type of operation. These dining lounges are expensively decorated and expensively furnished.

From reading the evidence taken before this committee on July 16, I know that you are familiar with the fact that those who tendered on this dining lounge operation were asked to guarantee or assure that they would

spend a minimum of \$350,000 in decorating the dining lounge at the Montreal airport. Therefore, you can see that this is a very expensive type of operation; it has a high overhead because of the cost of decoration, the cost of furnishings, and because operations of this kind have considerably more staff than the simple type of facility. There not only are more employees in number, but they are also more highly paid because of their much greater experience in serving food and liquor. In addition, these facilities often offer music and other inducements to the dining public. You can see that compared to the cafe and snack bar type of operation, this is an expensive type of operation.

Now, because of this very high overhead and because of the fact that competition limits the charges which the operators of these dining lounges can charge for their food, those who operate this kind of facility try simply to break even on the sale of food and in many instances; actually, they make a loss. Their profit is made on the sale of liquor which I am told is a very profitable operation.

In respect of this particular contract in question, tenders, I believe, were called in March of 1960, and all of those who tendered did so in complete confidence that a liquor licence would be granted for the operation of these facilities. A liquor licence had been granted to the far smaller and simpler dining operation in the very small original airport at Montreal. I believe in March of 1960 the last government's policy on the use of liquor at airports had changed, and it permitted the use of liquor at airports provided the provincial government concerned was willing to grant a liquor licence to the dining facility in exactly the same way they granted liquor licences to other dining facilities throughout that particular province. Therefore, because of that in a relatively short time after the federal government had made it possible for liquor to be sold in our airports, and a licence had been granted to a much simpler and smaller operation in the old airport, it no doubt was in the mind of anybody in the Department of Transport or those who were bidding for the privilege of operating this dining facility, that a liquor licence very quickly would be granted when an application was made.

The decision in respect of who was to receive the contract to operate the dining lounge, I believe, was made in April or May of 1960. In June of that year the provincial government in the province of Quebec changed. The successful tenderer for the dining contract applied for a liquor licence, but such was not granted until well on into the fall of the following year. So, the successful tenderer was obliged to operate this facility without a liquor licence for something like nine months.

Shortly after this dining facility was established, I visited it because, having been the minister in charge of the department when the Montreal airport was being built, naturally I was interested in seeing how this dining facility had made out. At this time I was not the minister of transport, having been appointed minister of trade and commerce in October of 1960. I found that this dining lounge had been well decorated; the food was good in quality, and was well and attractively served. I found, in fact, that everything was pleasant in this dining lounge except a product on which those operating this facility could make a profit, namely liquor. As I said, they were not permitted, because they did not receive a licence from the provincial government, to sell liquor for some nine months of their operation. The result of not being able to sell liquor in a facility of this kind, in which, as I said earlier, liquor always is sold and on which the proprietors make their profit, was that people stayed away from this dining facility in droves.

People who are going to use a dining lounge of this kind demand for the greater part the privilege of buying a drink before a meal, or during a meal, or after a meal; and some people like the privilege of buying drinks at all three times.

I am convinced that without a liquor licence, as was the case in the dining lounge of the new Montreal airport, no operator could have made a profit, and that no operator could have been more successful than the company which was awarded the contract for operating this dining facility.

Now, Mr. Chairman, I know, from having read the evidence that was given before this committee, that the question was asked on several occasions why it was that I, as minister of transport at the time, favoured a particular company which was awarded the contract as opposed to the one which the department recommended, namely, the Hilton organization of the United States.

I would therefore like to state five reasons why I decided that this company should be awarded the contract for operating this dining facility. The first was, as it was stated by Mr. George Scott, acting deputy minister of the Department of Transport at page 680 of the evidence taken before this committee, that the company which was awarded this dining concession made the best offer to the Department of Transport for operating this restaurant facility.

The second reason was, as stated by Mr. Ray Goodwin, director of civil aviation of the Department of Transport at page 687 and 688 of the transcript of evidence, the president of this company was, and I quote from Mr. Goodwin's words: "A very well-established restaurant operator in the city of Montreal". And he said in the same paragraph—the other members of the company, numbered I believe three or four, were—and again I quote his words: "Very highly regarded citizens in business in Montreal who provided excellent bank references". That is the end of Mr. Goodwin's statement on this matter.

For these reasons I decided that this company had, first of all, the necessary technical experience to enable it to carry out a successful restaurant operation at the Montreal airport. Second, that this company had the necessary financial backing and a first class reputation in the business world for ability and honesty; and the fourth reason I decided in favour of this company was that it has always been my belief that if other things are equal, local enterprise should have an opportunity to carry out important undertakings in an area.

This company had, first of all, as I have said, made the best offer of those tendering for the contract, and had the technical knowledge and the financial backing necessary to carry out a successful restaurant operation.

The fifth reason I decided in favour of this company was that once again, if other things are equal, I have always favoured Canadian enterprise as opposed to enterprise owned and controlled in another country, in this case, the Hilton operation.

Now, the Hilton people have proved themselves in hotel and restaurant management to be very able indeed. They operate the Queen Elizabeth hotel very ably indeed. They were brought in primarily because the Queen Elizabeth hotel is a convention hotel, and its success or failure depends upon attracting a great many conventions to that hotel.

Also, the Hilton people have a tremendous organization for bringing conventions to any of the hotels in their management chain, and the Canadian National believed that being managed by the Hilton organization would make it possible to bring to Montreal, to the Queen Elizabeth, the number of conventions which would be necessary for a successful operation of that hotel.

So, Mr. Chairman, as you can see, I have nothing against the Hilton organization. They are very able indeed. But there are a great many hotels and restaurants of a very high calibre across Canada which are operated by Canadians just as well as the Hilton organization operate the Queen Elizabeth hotel.

I believe that Canadians can operate hotels, dining lounges, and expensive restaurants just as well as people who come from any other country in the

world, and they demonstrate it every year. The fact that we have the tremendous tourist trade that we have bears out that assumption. It is my belief that if we have to invite the Hiltons, the Sheratons, and the Statlers to come to Canada to operate our important restaurant facilities in our airports and other places, it is denying this opportunity to Canadians, and it is a very sad state of affairs indeed.

I, for one, as I say, if other things are equal—and in this case I believe that other things were equal or better for the company which was awarded the contract—for that reason, as one additional reason, I was glad to award, or rather to recommend to the treasury board that this contract be awarded to the company which did receive the contracts for operating these facilities.

I think that is all I have to say. I shall be very glad, as I assured you over the telephone when I talked to you on Friday morning, to answer any questions put to me by any members of the committee. Thank you very much.

The CHAIRMAN: Thank you Mr. Hees for that very full and comprehensive statement.

As Mr. Hees has suggested, the usual procedure is to turn the committee over to Mr. Hees and Mr. Hees over to the committee for a question and answer period.

Mr. WAHN: Mr. Chairman, I think all of us will agree with Mr. Hees that we should not deny Canadians the right to run restaurants and operations of this sort in Canadian locations. Should we not insist as Canadians that when these contracts are given to Canadians, as we feel they should be, care be taken to make sure that the contract and arrangement are in accordance with sound business principles? If such is not done the result will be exactly the opposite to that which Mr. Hees desires. If we experience this type of thing happening, as reported in the Auditor General's report, we will in desperation end up by giving our contracts abroad.

My point is this. It is quite clear that the four or five people who obtained this contract were, according to Mr. Hees, business people with good bank references, yet the vehicle they chose to handle the contract was a completely new company with apparently no credit rating whatsoever. The evidence discloses that very little equity capital was put into the company in relation to the size of the operation. Mr. Hees very properly pointed out that an operation such as this involves a large expenditure. The government and people of Canada have a direct interest in projects such as this because if they are not successful they are going to lose, as they have lost in this instance.

Usually when a new project is entered into by a new company a financial plan is carefully developed. Usually there is a requirement that a new company have certain equity capital available and perhaps some bond money. Certainly there is always a very carefully developed financial plan in existence enabling the interested parties to be assured that the project has a reasonable chance of success.

I should like to ask Mr. Hees whether this was done in this instance and, if it was not, what are the reasons it was not done? The fact that the four principals had good bank references does not necessarily mean that the company being incorporated is of any substance, and apparently it did not have any substance in this case. The effect of this transaction, Mr. Chairman, seems to me to throw the entire risk on the Canadian public. If the operation had been successful and a liquor licence obtained it would have been very profitable for this company and the principals would have been quite happy. In actual fact the Canadian public assumed the risk.

My specific question is this. Was there not some specific financing plan developed for this company and, if there was not, why was there not? If

there was such a specific plan developed why was it not carried out? Apparently the furnishings were supplied on credit and the total equity, according to the report, was \$150,000.

Mr. HEES: Mr. Wahn, in cases where ministers submit projects to treasury board they go over the broad plan and decide from a policy point of view, a general economic point of view and from other points of view, which company they consider should receive a particular contract. It has always been my experience that when contracts of this kind have gone forward to treasury board over a minister's signature the treasury board staff then have gone into these contracts very carefully indeed before a contract has been passed by the treasury board, because a contract of this kind has no meaning simply because it is signed by the minister of a department, and it has no meaning as far as the government is concerned until it has been passed by the treasury board. Before a contract is passed by the treasury board, it has been my experience, in each case, that the treasury board staff very carefully examine all of the financial details such as you have mentioned. When a contract of this kind comes before the treasury board the treasury board officials express opinions pro and con and decide whether or not they feel it is a good and sound contract.

Very often a contract recommended by a minister is materially changed by the treasury board, or is passed over for another submission which the minister did not send forward. This is often done because the treasury board officials consider a certain other proposition is sounder than that put forward by the minister. In my experience in all of these cases, before they are passed, the treasury board staff, whose duty it is to do so, examine carefully the provisions contained in a proposed contract to make sure that the government is completely covered from every point of view and that the contract will be successfully carried out. I agree that these matters should have been checked. What I am saying, as the minister involved, is that no minister of transport physically has the time to check all of the details to which you have referred in respect of every contract that comes before him. There are literally hundreds of contracts that come before the minister of transport each year and he simply does not have the time to check these details. It has always been my experience that the treasury board staff did that and did it extremely well. On many occasions I was asked to come back to the treasury board to answer certain questions the treasury board staff asked and very often, as I say, contracts were changed or rejected and given to someone else. I agree that these things should be checked but suggest to you that the minister of transport does not have time to check all the details you have mentioned. It is desirable that someone check over all the details very carefully.

Mr. WAHN: Mr. Chairman, perhaps I have not made my question clear. If a contract of this kind were to be let to a well established Canadian company with a good credit rating, then the Canadian public and the minister would know that that company was capable of carrying out the contract. In this case the contract was let to a completely new company or corporate shell. Under those circumstances I should like to ask Mr. Hees whether the minister has a responsibility in making such a recommendation to the treasury board, realizing that he is a busy man and cannot go into detail in respect of every contract, to consider the financing arrangements before doing so? Surely such a consideration is imperative?

Mr. HEES: Mr. Chairman, I became convinced after examining the bank references of each of the four or five principals of this company that this company was made up of very responsible citizens of the business community of Montreal, and each one of them had extremely good, to use the words of Mr. Goodwin, bank references. These were first class people with

first class bank references and, as I said earlier, I was convinced, from what I learned when I asked my departmental officials about this company, that it not only had the experience necessary, because of experience in restaurant operations in the past, to do a good job, but that the members who formed the company were financially responsible and possessed the kind of financial backing necessary to allow me to make a recommendation of this kind to the treasury board.

You are asking me why I did not consider all the details of how the operation was to be paid for. I say that in all cases these kinds of details were checked by the treasury board staff to make sure that the government would be adequately paid for all expenditures or liabilities it might incur. I agree, and it is very easy to see after the event that something should have been done. It is awfully easy to call the right play on Monday morning, but it is much more difficult in the heat of battle on Saturday afternoon.

I agree that someone should have checked to make sure that these payments would be made. I am explaining to you why I did not. I am surprised that the treasury board staff did not, and I am surprised that the treasury board of the day did not make sure that the treasury board staff had checked these matters because, in my experience—and I served on the treasury board for about two years—it was always the kind of thing that the treasury board staff did check, and the treasury board chairman always made sure that it had been done.

Mr. WAHN: Mr. Chairman, the witness has said that the bank references of the principals were carefully checked by him or by officials of his department. Were they asked to provide any guarantee of the contract which was given to them? Were they asked to provide any guarantee?

Mr. HEES: Are you asking me or the Chairman?

Mr. WAHN: I am asking you.

Mr. HEES: That, I believe, Mr. Wahn, was very ably stated in the evidence taken on July 16. The answer was no. That is why you are asking your question.

Mr. WAHN: If that is so, since this was a corporation and they were not personally liable, their personal bank references were of no value to your department.

Mr. HEES: Mr. Wahn, I checked the personal bank references of the people who made up this company. You as a businessman know that you do not get—as described by Mr. Goodwin—an excellent bank reference unless you are an excellent credit risk, unless you have an excellent reputation in the business world for being a successful businessman, paying your bills and being thoroughly responsible in all matters financial.

If you had a company made up of people all of whom had excellent bank references, then I think you would have confidence in the fact that the company would be a responsibly operated company, would you not?

Mr. WAHN: No, not unless I obtained guarantees. I would say—and we all realize how well banks are operated—that no bank would lend money to a corporate shell, no matter how responsible the principals, unless the principals were prepared to back up their corporation by guaranteeing their corporate loans in the bank. What is good enough for the chartered banks is surely good enough for the government of Canada. These banks would require personal guarantees, as I know and Mr. Hees knows. Why should we not do the same?

Mr. HEES: We have agreed that this kind of check should have been made. We are not arguing about anything here. You are asking me why I did not personally check to see this was done. I have tried to explain to you why I did not do this.

It was never the case, as far as I was concerned, in a department like that to check into details of that kind. This was always done by the department and particularly by the treasury board staff, whose job it is to check important details of this kind. I agree that this should have been done. I have tried to explain to you, Mr. Wahn, why I did not do it, and I hope I have explained.

The CHAIRMAN: Mr. Tardif and then Mr. Prittie.

Mr. TARDIF: Some of the questions I was going to ask Mr. Hees have been partially answered. However, what I want to know originally, Mr. Hees, is whether that tender was advertised.

Mr. HEES: That is a detail with which I am not familiar; this happened four years ago. I would prefer you to ask that question of Mr. Scott.

Mr. G. A. SOTT (*Acting Deputy Minister, Department of Transport*): Yes, they were advertised.

Mr. TARDIF: I imagine the Queen Elizabeth hotel was opened when you were minister of transport.

Mr. HEES: I had just taken over, about a month before.

Mr. TARDIF: What surprises me is that in the case of the airport, you advertised for this tender and you preferred that it would be a Canadian company. I do not disagree with you; I think that is a good principle. However, for the Queen Elizabeth I am told that many Canadian companies would have been interested but that the department found the Canadian companies did not have sufficient experience to, let us say, gather or encourage conventions. Was that a basis for the decision to give the Queen Elizabeth hotel concession to Hilton?

The CHAIRMAN: We are getting a little off the track, Mr. Tardif.

Mr. HEES: May I answer that? The Queen Elizabeth hotel was actually opened about a month or two months after I took over as minister. All of these arrangements were concluded by the previous minister.

Mr. TARDIF: I am sure you would agree with me that people who are able to interest people to use their facilities for convention purposes could probably also make it pleasant for people to go and have food in their dining room.

Mr. HEES: I think attracting international conventions, Mr. Tardif, is a different matter from attracting people from a locality and the travelling public to come into a dining room facility and use it. There is no problem in attracting people to come into a dining facility if it has what the public wants. This company was very anxious to give the travelling public what it wanted, but it was not allowed to do so because the provincial government, which had been elected in June of 1960, did not see its way clear, for reasons best known to itself, to grant this licence for a period, I believe, of something over a year. As a consequence, this facility was forced to operate for nine months without a liquor licence.

You have travelled extensively, Mr. Tardif, I know, and you have gone into a great number of international airports. I feel sure you have used their dining facilities, and you will know that they are the same all over the world. They are very elaborate; they serve their food extremely well; and you can get drinks before, during and after dinner. All that was necessary for this to be a very successful operation was for it to have had the provincial government of the day grant to this concessionaire a liquor licence to start operating with the sale of liquor when the concession opened. This was not done. Many people went there thinking they could get a drink and were very disappointed. Then they said, "This is a rather dull place. We don't think we'll go back again." So, for nine months, the situation became worse and worse.

When something does not start off with a bang and people do not get the idea of using a facility, it is very hard or relatively hard for the ball to be

picked up again. That is the case today. It has picked up somewhat, but I feel sure if the facility had been granted a liquor licence at the very beginning, this dining lounge operation would have been a great success, because the people of the Montreal area are very hospitality minded, they are people who like dining out, and they like dining well. Many people of the city of Montreal would have got into the habit of using that dining facility when going to catch a plane or arriving from a plane. The travelling public would have got the idea that Montreal airport was a good place to have dinner and to have drinks in between planes. I feel sure if that licence had been granted this whole operation would have been a great success; but, as I have said, no operator of a facility of this kind anywhere in the world of whom I know makes any money on his food. I talked to a great many of them in the days when I had to deal with granting concessions for restaurant operations in our airports because I wanted to know how these things operated. I was told universally that the best they could hope for was to break even, that most lose money on food and could hope only to make money on liquor. If they didn't have liquor, all they could do would be to lose money.

Mr. TARDIF: If it was that important, and if it would make the difference between the operation making a profit and being in the red, was that very important condition not drawn to your attention when you were minister?

Mr. HEES: I left the department in October, 1960. This was three or four months before the restaurant opened and it was two months before the airport opened in the middle of December. At the time when I was in the department the concessionaire, I know, had applied for a liquor licence or was in the process of applying for a liquor licence. I do not know the dates and I do not know any of the details, but I know this concessionaire did apply and was expecting to receive a liquor licence, as did all of those who applied for this concession when they made their bids. Nobody, Mr. Tardif, will agree to pay anything like \$350,000 for the privilege of losing his shirt; it is a very high price. That is what they were asked to do. If they were not allowed to sell liquor, they would obviously make a loss and the \$350,000 which they put up would obviously go down the drain. No sensible person is going to do that.

Mr. TARDIF: I fully realize that, but I am surprised, if this condition was so important, that even in the short time after you took over it was not brought to your attention or that some officer of your department did not make some recommendation to the province. Do you know of any reason why the province did not allow this liquor licence?

Mr. HEES: I have no idea. I would say the only way you could obtain that information would be to ask the minister concerned with issuing liquor licences at the time, and that would be the provincial minister.

Mr. TARDIF: Are you saying that you made the decision to accept this tender?

Mr. HEES: That is correct.

Mr. TARDIF: And you say you had five reasons. I have marked down the reasons. You eliminated reason number three, and that may be the reason that proves that your action was correct.

Mr. HEES: How did I eliminate reason number three?

Mr. TARDIF: You said that the first reason for which you decided that this was the firm that should be recommended was that, in the first place, they had experience and they were going to have a liquor licence.

Mr. HEES: No. May I go over that? If you would care for me to do so I will go over my five reasons.

Mr. TARDIF: Well, it is not that important.

Mr. HEES: But, you said I eliminated one reason and I should be interested in knowing what the reason was which I eliminated.

Mr. TARDIF: I will come to that. However, the second reason you gave was that it was a well established firm, highly regarded, and had a very high bank rating. I agree with both you and Mr. Wahn that if you are involved in a business deal the bank rating does not actually count; rather, it is the bank guarantee in respect of the carrying out of these responsibilities in which these people are involved which counts.

Number 3 was the one for which I did not get any reason, although I may have numbered the reasons improperly.

In respect of reason Number 4 you said it was a local enterprise. This worried me because I understood the Hilton operation was invited to take over the Queen Elizabeth hotel. You said some of this happened before your time and some after your time.

Mr. HEES: All of it was before my time.

Mr. TARDIF: But do you not think that some of it was in your time? I am thinking of the time when the recommendation in respect of this particular concessionaire was made.

Mr. HEES: That is right.

Mr. TARDIF: Do you not think the gamble existed before you came up with these four or five reasons for making the decision? And do you not think the gamble that these operators took was very small in respect of the amount of investment necessary to make this a successful operation? You must have looked into that aspect of it before you made the decision.

Mr. HEES: As I say, there were five reasons why I decided these people should have the concession. The first reason was that they made the best offer, and that is important. The second reason was that they had the necessary technical experience. The third reason was that they had the necessary financial backing and a first class reputation in the business world for ability and honesty. These matters were stated by members of the department, as I mentioned earlier, in the evidence given here on July 16 of this year. The fourth reason was that they were a local enterprise, and the fifth was that they were a Canadian enterprise. Those are the five reasons I believed this company was justified in being awarded the contract, and that is still my feeling today.

Mr. TARDIF: I am speaking of the period of time in which you were the minister. When people have the type of reputation which these people no doubt have, is it the practice, if the department enters into a contract with this type of firm, not to insist on a guarantee, or was this an exception?

Mr. HEES: Well, Mr. Scott answered that question earlier and perhaps he would comment upon the technical details with regard to how the department usually requires or does not require a guarantee. As I said, he made an answer earlier in this respect.

The CHAIRMAN: Mr. Tardif, are you dealing with this subject on the general principle? Are you asking, in respect of cases of this kind, what the general policy is, and if there is a guarantee?

Mr. TARDIF: No.

The CHAIRMAN: You are referring particularly to this case?

Mr. TARDIF: It is my understanding that this contract was given to this firm without any guarantee whatsoever, except the reputation which it held. I am asking if it is a customary practice for the Department of Transport, under anyone's administration, to operate in this way?

Mr. HEES: As I say, Mr. Scott answered that question in some detail on July 16, and I think perhaps he should answer it today.

Mr. TARDIF: I do not want a detailed answer.

The CHAIRMAN: You want to know what the general practice is?

Mr. HEES: Mr. Tardif, I know you want the exact answer because you are a very particular man, and I want you to get the best answer you can get in this respect.

Mr. TARDIF: And, you are a very charming fellow.

Mr. HEES: I always have been very fond of you, too.

Mr. TARDIF: You are so kind that, as a matter of fact, I am very tempted not to put any further questions.

The CHAIRMAN: May we now go on to Mr. Prittie's question.

Mr. TARDIF: I would like an answer first, Mr. Chairman.

The CHAIRMAN: Mr. Scott, would you like to get into this gallant performance?

Mr. SCOTT: Well, Mr. Chairman, in respect of many undertakings in the department, very binding contracts are entered into, but this is not the practice in respect of concessionaires. The real commitment here, was the undertaking by the concessionaire to expend this \$350,000 in respect of the installation of furnishings, equipment and decorating of the cocktail lounge and bar.

Mr. TARDIF: Then, this is an exception to the general rule.

Mr. SCOTT: No. In respect of contracts, there is not a binding contract in the case of concessionaires. But, certainly there are binding contracts in respect of construction or anything of this nature. But, as I say, this does not apply in the case of concessionaires.

Mr. TARDIF: Mr. Hees has said that when this recommendation was made he put his signature on the document, and that covers the recommendation. Then, he says it is sent to treasury board.

Mr. HEES: Yes.

Mr. TARDIF: And, very often treasury board makes a change.

Mr. HEES: Yes.

Mr. TARDIF: Does treasury board make changes without going again to the minister?

Mr. HEES: No. It is my recollection that they have the right to do so but I do not think they ever do without speaking to the minister again. I think if it was an important change they would call him back. But, if it is an unimportant change they probably would not. However, I do not think they are required to call him back.

Mr. TARDIF: Would you say that the signature of the minister on a document as important as this could have some influence on treasury board?

Mr. HEES: No, Mr. Chairman; it has no influence at all. If you ever have appeared before treasury board and experienced just how they treat a contract that comes forward, you will know that they treat it in a completely objective way; they look at it in exactly the same way your own banker looks at it when you put forward a business proposition. Then, you will know how tough the treasury board can be on any proposition put forward and how minutely they examine the details of all these contracts. That is why ministers have such great confidence in the recommendations they put forward. It examines all the details of financing as well as other details very minutely in order to make sure the government is 100 per cent covered, and that was so in this case.

Mr. TARDIF: In this particular case you said you did not have time to check the details, and I agree that you would not have the necessary time; but, would you say, from the partial evidence you listened to this morning, that a

policy should be established where these details are checked by someone who is responsible and who could be held responsible.

Mr. HEES: Yes. I always have insisted this is the final responsibility of the treasury board staff and the responsibility of treasury board itself to make sure that the treasury board staff has examined these details before it, as the board, puts its signature on a contract. And, I think that should be given very careful attention in the future, and I hope this will be done.

The CHAIRMAN: Would you proceed, Mr. Prittie.

Mr. PRITTIE: Mr. Chairman, Mr. Hees laid considerable stress on the fact he wanted a local Canadian firm to do this contract rather than the Hilton organization. I notice in the Auditor General's report that there were three bids, two of them very well established concerns in the catering field. Presumably, one was Hilton. Could I have the name of the other one?

Mr. HEES: The other one was Aero Caterers.

Mr. PRITTIE: Are they a Canadian firm?

Mr. HEES: I do not know whether or not they are. But, the contest finally came down to two firms, the one that finally was recommended and the Hilton organization.

As you will remember, having studied the evidence carefully, and I know you have, Mr. Prittie, that it was the Hilton firm that was recommended by the department, and it was the recommendation by my department in respect of the Hilton firm that I passed over in favour of this company.

Mr. PRITTIE: Could Mr. Scott tell me if Aero Caterers is a Canadian firm?

Mr. SCOTT: Yes, they are.

Mr. PRITTIE: Is it a Montreal firm?

Mr. HEES: I have no idea where they come from.

Mr. SCOTT: That firm is from Toronto.

Mr. HEES: I think they do come from Toronto. However, I think you will find, if you check back on the notes you took when the evidence was given, that Aero Caterers, put in the third best bid. Is that not true, Mr. Scott?

Mr. SCOTT: That is true.

Mr. HEES: After all, when you are asking for tenders and tenders come in and you consider all the parties concerned are responsible firms with ability, financial responsibility and technical knowledge then you must pay quite a bit of attention to which firm makes the best bid. The firm that was finally given the contract made the best bid. Aero Caterers made the third best bid.

Mr. PRITTIE: According to the Auditor General, the bids were much the same. He says this on page 54:

The third, which contained a slightly better offer than the other two—

It would seem from that that there really was not very much difference between them.

Mr. HEES: When a department such as the Department of Transport calls for tenders on big contracts such as for airport construction, for instance, you often receive maybe 15 or 20 tenders, and often there is very little difference between the top tender and the second top tender. However, if you pay any attention to the tender principle, you award the contract to the tenderer who puts in the best bid provided he and his competition are both able to do the job and are financially responsible people. The only time you put aside the best bid is if you become convinced that the person who did put in the best bid is not able to carry out the contract in a successful way because of lack of technical knowledge or lack of financial backing, or for some other reason. If you are

calling for bids, you must pay a lot of attention to who puts in the best bid, and you would award the contract, provided the people concerned are technically able and financially able to carry out the contract.

Mr. PRITTIE: Now, Mr. Hees has said that he expects the treasury board to check the details of the contract, that the minister would not have time to do this, which, of course, we can all understand. I would suggest that if the minister did not have time to do that sort of thing—and I agree with him—I suggest he perhaps did not have time to do the necessary checking before recommending the bid.

Mr. HEES: Yes, he did, he had plenty of time to make the necessary check which ministers make. You make it on broad principles. You study the technical ability of the firms concerned, which I did. You study the financial responsibility of the firms concerned, which I did. You study the bids to see who made the best bid, which I did. On that basis I made my decision that I thought that that company was the one most deserving of the contract. The financial details on who was going to get paid and what method the government was going to use to make sure that there was no slip up in payments and so on, that is the kind of work that the treasury board staff are paid to do, and they do it very well indeed. That is what the treasury board are supposed to ascertain, and that is what the treasury board staff do before they put their signatures down on a contract which makes it government policy.

Mr. PRITTIE: In reply to Mr. Tardif's question you said that the minister's signature would not carry that much influence with treasury board, that they were a very hard body to get by. It would seem that if this is the case, the minister recommends but it is they who eventually dispose.

Mr. HEES: The minister only recommends, but before the signature of treasury board appears on the contract it does not mean a thing.

Mr. PRITTIE: If that is the case, then it would seem to me that perhaps someone from the treasury board should be here before the committee, explaining this particular situation rather than the former minister.

The CHAIRMAN: We have officials of the treasury board before us quite often, and I am sure that before the termination of our proceedings we will have them again. Any report we make in respect of this incident will probably not be made until the final report is prepared, and if the committee feels disposed to call some of the treasury board officials before them, we will have ample opportunity to do so.

Mr. LEBLANC: As you are probably aware, Mr. Hees, I participated in the first discussion on this subject, as you will see in the evidence. Regarding the financial backing of the first group which you praised so much, as well as their technical experience, apparently a reply of Mr. Henderson to one of my questions is not in accordance with your own statement. It appears on page 693, where Mr. Henderson says:

Well, my own general impression of the performance of the first group is that they did not seek to organize themselves very effectively. He then says:

I suggest to you that they did not take this very seriously.

If that group were so spectacular and so well backed financially how would you account for the fact that they could not even meet the first \$350,000 payment? The only thing they did was to deposit \$150,000 into the undertaking.

Mr. HEES: Mr. Leblanc, it is very easy to look back with hindsight on something that did not quite come off and say that you should have known this and you should have done that. Everybody will agree that certain things should have been done. In this instance we were deciding on who would be

a good company to operate this concession. As I say, the evidence before me given to me by the department at that time is the kind of evidence that Mr. Goodwin gave. On page 687 you will see what Mr. Goodwin, the director of air services said, and I quote:

Mr. Chairman, I recall the meetings on the various particulars and indeed the original four or five citizens did provide excellent bank references, for what they were worth; mind you, it was not a guarantee from the bank. However, the original group, which consisted of approximately four persons, one of whom—I believe the president—was, in fact, a very well established restaurant operator in the city of Montreal. The other gentlemen concerned also were very highly regarded citizens in business in Montreal. So, at the time the bids were reviewed, and subsequent to the original review, the original group did present what the department at that time considered to be satisfactory bank references, but not a bond or anything of that nature.

That is the kind of information a minister receives when he is trying to decide on a matter of this kind. Unfortunately, he cannot project himself two years ahead and see how the thing is going to work out. He only has what his department reports to him on the facts of the case at that time. The facts in the case that I received were that all these people had excellent bank references, that they were very highly thought of in the Montreal business community, and that the president was very well established in the restaurant business in Montreal. From that evidence I decided that these people were satisfactory people to operate a concession of this kind. Mr. Leblanc, if you were minister at the time I think you would have thought that, too.

Mr. LEBLANC: That I do not know.

Mr. HEES: Well, when you get to be a minister you will have a lot of interesting experiences of this kind, and you will find that hindsight is a great deal easier than foresight.

Mr. LEBLANC: I have another question regarding the liquor licence, which was one of the topics, of course. On page 695 of the evidence Mr. Smith said:

I have a note to the effect that the company received a liquor licence on February 24, 1961.

The lease was signed on January 31, 1961, so that not a month elapsed between the signing of the lease and the granting of the liquor licence.

Mr. HEES: If you read on in the evidence I am sure you will see that it was shown that this was not a correct statement, Mr. Leblanc. It was stated a lot earlier that this liquor licence was not given until the fall of that year. If you will check the facts, you will find that this is the case. You will find that this statement was corrected somewhere later on in the evidence. The fact of the case was that the liquor licence was not awarded until the fall of that year, and this concessionaire operated for practically nine months without a liquor licence and without anything on which he could make a profit or draw a crowd into that restaurant. You will agree that nobody can stay in business for long in those circumstances. To try to operate in such cases is like expecting a man to swim with his hands tied behind his back. He can float for just so long and then it is just a question of how soon he will go under. The same thing is true in business.

Mr. LEBLANC: Do you not think that such a group would not have been very wise if they did not assure themselves first that they would receive that licence before they signed a lease which involved \$350,000 for furnishings and \$100,000 a year for rent?

Mr. HEES: I am sure that none of those companies bidding for this concession ever had the slightest thought that a liquor licence would be refused for such an important dining lounge as this. It is inconceivable to me, Mr. Leblanc, that anyone would want our No. 1 international airport, the airport where people coming in from other countries land for the most part and get their first impression of Canada, not to have the same facilities as are provided in any other international airport in the world. It was inconceivable to me, and I am sure to any of those who were bidding, that there possibly could be such a thing as a refusal of a liquor licence for such an important concessionaire; after all, he was asked to put up \$350,000 to decorate and operate this lounge. This was going to be one of the show places of Canada. I do not think it ever entered the mind of anyone that there would be a refusal for any time of a liquor licence for this operation.

The CHAIRMAN: The first three I have on my list are Mr. Whelan, Mr. Rondeau and Mr. McLean. I do not wish to inhibit the full right of members of the committee to make a complete inquiry into this matter but, on the other hand, I hope we will not offend against the rule which prohibits repetition.

Mr. CAMERON (*High Park*): I understood you would recognize me after Mr. Tardif.

The CHAIRMAN: I have you down on the list.

Mr. ROCK: Do you have me on your list?

The CHAIRMAN: Yes.

Mr. WHELAN: Mr. Chairman, I have listened to Mr. Hees today and while I was a member of the opposition for a short time I was an admirer of his capability and his energy in all capacities. It is my belief that a minister of transport could not possibly keep on top of the monstrous department he has to administer and know everything that is going on. Would you recommend that this portfolio be divided?

Mr. HEES: Mr. Whelan, I think any minister of transport for a long time has realized that this department is just about twice too big. I was told by Mr. Chevrier that the government had decided this before, unexpectedly, they were defeated in 1957—and the opposition was more surprised than they were; they had decided that the department should be divided into two. It seemed to me it should be divided into two. I think it probably has been felt by every minister of transport that it should be, but when you are the minister you like handling something that big, because even though it is too big, it is a large powerful department and you get a kick out of handling something that big. Therefore, you do not recommend that your empire be cut in two. However, I think this department is too big; it has grown faster than any other department of government. If you are interested in my opinion, I would think the natural division would be one department comprising air and communications, including everything having to do with radio and television licensing, and so on, and the other would be railways, canals, shipping, harbours, and so on. That would make it two very big important departments which would take a very good part of the time of two ministers to operate.

The CHAIRMAN: Mr. Whelan, this is a very fascinating vista you have opened up, but I think it lies beyond the realm of the public accounts and the spending of money.

Mr. WHELAN: I disagree. This is, obviously, one of the reasons why the Minister of Transport cannot scrutinize contracts like this close enough. I think everyone at Montreal airport realizes it is important to have the restaurant facility there, because if you happen to get off a plane at the far end, even if you are not hungry then, you will be by the time you get to the restaurant.

Mr. HEES: You can say that again.

Mr. RONDEAU: I believe you said that the four members who formed this company had some experience, but the kind of experience they had, they had acquired by themselves and not as a company. This was a new company?

Mr. HEES: That is right.

Mr. RONDEAU: They decided to form a company in order to try to get the contract from the department.

Mr. HEES: Yes.

Mr. RONDEAU: Has the committee been given the names of those four principals?

Mr. HEES: Mr. Chairman, I have no idea of the names of these persons.

Mr. RONDEAU: You have no idea?

Mr. HEES: No; I am sure I did at the time, but this is four years ago now, and I have handled two jobs since that time.

The CHAIRMAN: At the request of somebody at the time, the department of transport sent me a letter giving a complete list of the members of this company. This letter was tabled, appended to our Minutes of Proceedings and Evidence, and you will find it in our proceedings.

Mr. RONDEAU: The fact is, you told us they did not have a licence for a few months and did not have any facilities for liquor. Is there any political reason why the province of Quebec did not issue the licence when they already had a contract from another government here in Ottawa?

Mr. HEES: I would say that this could be answered only by the minister of the provincial government at that time who had charge of issuing liquor licences; I would suggest you ask him.

The CHAIRMAN: I do not think it would be in order for this public accounts committee to get into such matters which concern the province of Quebec.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I think the meat of this thing is the liquor licence.

Mr. HEES: That is the statement of the week.

Mr. McLEAN (*Charlotte*): If these persons did not have the liquor licence, they would lose money; if the Hilton people had the contract and did not have a liquor licence, they would lose money. Mr. Hees says he knows they would lose money without the liquor licence. It seems to me that the treasury board and Mr. Hees must have had some assurance they would get the liquor licence, or that they had the liquor licence, or otherwise they would not have granted the concession. What about it; was the provincial government wholly responsible? We have been given to understand that the federal government had something to do with it; that is, that the federal government was against giving the licence?

Mr. HEES: I will be glad to tell you that story. This was four years ago and I do not remember the details, but I think that some time around March 1, the federal government changed its policy in respect of allowing the sale of liquor at airports. Until this time it had been the policy of the federal government that liquor would not be sold in our airports. However, about March 1 of this year the government very wisely changed this policy and decided in general its position was only that of landlord to those who held the restaurant concessions in our airports and that it was up to the person who held the restaurant concession to apply to the provincial government concerned to have a liquor licence in exactly the same way as operators of other restaurants throughout the province applied to the provincial government for the right to have a liquor licence and to sell liquor. That was the policy of the government from about March 1, 1960, on. When the policy was changed, the concessionaire who held the much less important and much smaller restaurant at the old Montreal

airport applied to the provincial government and was granted a liquor licence with, I believe, very little delay. I think it was quite correctly assumed by all of those who were applying, that in a province such as Quebec which is very broadminded on these matters, and whose citizens at large very wisely like to have a drink before their meal, during their meal, or after their meal, and sometimes all three, a liquor licence would be granted for a concession of this type, which was about the highest type of concession you can think of.

Why it was not done, I do not know. I have no idea. But it was not done. As far as thinking that it could not be done is concerned, to me it was inconceivable, and I am sure it was inconceivable to all who applied for a concession. It is easy to look back and say that a person applying for a concession should have had a guarantee that he is going to have a liquor licence issued to him. But these are plays you can work out on Monday morning, which are very difficult to work out on the playing field on a Saturday afternoon.

I am sure that when the liquor licence was not forthcoming, the concessionaire wondered why he had not made sure that he would get a liquor licence. It was just one of those things that happen. I do not think there would be one person in 100,000 who would have thought that the provincial government of Quebec would turn down an application for a liquor licence at dining facilities of this kind.

Mr. McLEAN (*Charlotte*): It seems to me that the liquor licence was of just as much significance to the minister and the treasury board, as it was to the concessionaire, because it was the government who would lose the money.

Mr. HEES: If you can devise some way to make all ministers to be all wise and to make sure that they have thought of everything that could possibly happen of any possible nature, you would be making a great contribution to government. Ministers are just ordinary human beings, and some are more ordinary than others.

The CHAIRMAN: Sometimes there is some doubt on that score.

Mr. HEES: I guess so. Some people do not believe that we are human.

The CHAIRMAN: I have Messrs. Rock, Hales, and Fisher. We still have a few more to go after that. Now, Mr. Rock.

Mr. ROCK: Did any of those gentlemen who created this new catering service and entered into a contract with the government, request or form other companies which requested other concessions?

Mr. HEES: Mr. Scott tells me no.

Mr. HALES: I think my question has been answered. I think we have had a pretty good discussion of this matter, and the witness has answered all the questions pretty well. I think it boils down first to the fact that a liquor licence was not available, and that this was of primary importance in the failure of this company. Second, the committee has made its recommendations to the treasury board that it should in this particular case have looked into it a little further, and maybe require a bond to back up the agreement. But I think we have discussed this very thoroughly, and I believe we should now get on to the next order of business.

The CHAIRMAN: I think so, too, but there are other members on my list, and they should be given their opportunity.

Mr. FISHER: I would like to ask one question which actually Mr. Winch put last time. But he is away today with the defence committee visiting the navy. I told him I would ask this question for him. Mr. Winch wanted to know whether the political affiliation of the people who got the contract had anything to do with the minister's decision, or whether this matter was considered. Were they Conservatives?

Mr. HEES: I am glad you asked that question because I have no idea of the political affiliations of these people. I have no idea what the political affiliations, if any, were of the gentlemen who formed this company. I have no idea whatever, and I mean that. Surely these things do not come into being now! No, I am shocked, Mr. Chairman. I am shocked and I cannot believe it. These gentlemen talk as if they were of some importance today. I am surprised and amazed.

The CHAIRMAN: Order, gentlemen.

Mr. FISHER: Do you recall, Mr. Hees, how elaborate or lengthy a discussion you had with Mr. Baldwin and other officials about this matter?

The CHAIRMAN: You mean Mr. Baldwin the deputy minister.

Mr. FISHER: Yes. I base this question on the evidence we have. I trust it does not create any embarrassment for you. It comes from the fact that Mr. Scott indicated that the general assessment of the department was in favour of the Hilton group, and I also assumed from Mr. Scott's evidence that this had been the assessment of your officials, and that it was also given to the treasury board. Therefore, I would like to know how much time was spent and how big the discussion was between you and these officials concerning this matter.

Mr. HEES: It is hard to remember an exact incident. This was one of several hundred contracts which would come before the minister each year. I remember discussing the thing with Mr. Baldwin, but exactly how long the discussion lasted, I cannot remember. But in all these cases we discussed matters thoroughly. I looked at the evidence presented to me by him, which had come forward from all those making a bid for this concession. The discussion might have taken any part of an hour, I suppose, or perhaps more. I would not really know.

Mr. FISHER: He never raised it from the point of view that we would rue the day when we awarded a contract to this concessionaire?

Mr. HEES: No. Mr. Baldwin felt that the Hilton group should be given the concession. But very often Mr. Baldwin and I had differences of opinion, and far more often we agreed. Very often he was able to persuade me in favour of his point of view, but sometimes I was able to persuade him in favour of mine. After all, a minister has to have his own opinion on these matters, otherwise he will become merely a rubber stamp for his department.

Mr. FISHER: I think most of us are quite prepared to see ministers overrule the advice of their civil servants more often.

Mr. HEES: I know what you mean.

Mr. FISHER: I think the suspicion may linger because of the fact that a licence was turned down by the Quebec government, and that there may have been a partisan reputation of this particular group. You have given an indication that you know nothing of this.

Mr. HEES: That is right.

Mr. FISHER: So it seems to me that we just have to leave it at that. It does seem unbelievable that this licence should have been held up. But I remember when Mr. Chevrier was minister of transport he told me about going to see the premier of Quebec. When he left the interview, an hour and one half later, he said that the subject he had in mind was never reached.

The CHAIRMAN: Now, Mr. Cameron.

Mr. CAMERON (*High Park*): When did you give up the office of minister of transport and become minister of trade and commerce?

Mr. HEES: October 11, 1960.

Mr. CAMERON (*High Park*): From then on you had no active participation in this matter.

Mr. HEES: That is right.

Mr. CAMERON (*High Park*): It was after that date that most of this trouble occurred.

Mr. HEES: That is right.

Mr. CAMERON (*High Park*): I mention this because this was a showpiece; it was not just a matter of 200 contracts a year. This was one of the big contracts of the year and you would be very interested in it.

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): I notice that executive approval was given in August of 1961 for the letting of this particular contract. You stated the change of government in Quebec occurred in June of 1960.

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): Some eight or nine months after that these people received a liquor licence; is that right?

Mr. HEES: No. I think they received the liquor licence about eleven months after, Mr. Cameron.

Mr. CAMERON (*High Park*): You are changing that statement now from eight or nine months to eleven months. Can you tell me exactly when they received the liquor licence?

Mr. HEES: I beg your pardon.

Mr. CAMERON (*High Park*): Can you or Mr. Scott tell us exactly when the liquor licence was obtained in respect of this concession?

The CHAIRMAN: I am handing Mr. Hees a letter from Mr. Scott, directed to me, containing this information.

Mr. CAMERON (*High Park*): What does the letter state, Mr. Chairman?

The CHAIRMAN: The letter indicates that the liquor licence was first issued on February 22, 1961. This is a copy of a letter I received from Mr. Scott containing information the committee requested. You may have to pursue your questioning in this regard because this statement refers merely to the issuing of the licence.

Mr. CAMERON (*High Park*): I should like to ask Mr. Hees or Mr. Scott whether that information is correct and the liquor licence was obtained on February 22, 1961?

Mr. HEES: It was my impression that the liquor licence was issued in the fall of that year, but I was not the minister at the time.

Mr. CAMERON (*High Park*): I asked the question in order to obtain that information and because I assumed your responsibilities ended on October 11, 1960.

Mr. HEES: That is right, yes.

Mr. CAMERON (*High Park*): I should like to find out through you or Mr. Scott whether this information is correct and the liquor licence was granted on February 22, 1961.

Mr. SCOTT: Yes, Mr. Chairman.

Mr. CAMERON (*High Park*): That information is correct, is it, Mr. Scott?

Mr. SCOTT: Yes, sir.

Mr. CAMERON (*High Park*): The formal contract was not negotiated finally until January 31, 1961; is that correct?

Mr. SCOTT: I should like to check that information.

The CHAIRMAN: Mr. Scott will check that information with his officials. Perhaps you could pursue your questions while he is doing so.

Mr. CAMERON (*High Park*): I do not want to continue because my further questions have a bearing on that information.

The CHAIRMAN: We will wait until Mr. Scott obtains that information.

Mr. LEBLANC: Mr. Henderson has the answer available. His report indicates the date is January 31, 1961, which means they received the licence within one month.

The CHAIRMAN: Mr. Scott has the answer now, I believe.

Mr. ROCK: Are you sure there were not two licences issued?

Mr. HEES: I remember being in the dining lounge on several occasions after it opened and I know there was no liquor being served.

Mr. CAMERON (*High Park*): Mr. Hees, I understand further that the effective date of the contract was the end of February, 1961, after the obtaining of the liquor licence, so that these people should have had a liquor licence right from the inception of operations.

Mr. HEES: As I say, I was in the dining facilities on several occasions and I know that liquor was not being served. I was informed that for a long time these people did not receive a liquor licence.

Mr. CAMERON (*High Park*): You approved of this syndicate or group of individuals getting the contract because of their business reputation, their bank references and the skill of at least one of them as an operator of restaurants; is that right?

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): Would you think they were particularly good businessmen if they went into this type of business without having definitely assured themselves of obtaining a licence or, having failed to do so, referring the matter to the department, indicating the difficulty involved in obtaining a licence?

Mr. HEES: Mr. Cameron, the report we received in respect of these people indicated, in Mr. Goodwin's words, that they were highly regarded citizens in the business community of Montreal and had excellent bank references. These people appeared to me to be the kind of people who would operate a successful business enterprise.

Mr. CAMERON (*High Park*): I agree with you that you exercised reasonable judgment, but I am pointing out that the executive order approving of the granting of the concession was dated August, 1960.

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): The election was held in June of 1960 and these people must have known sometime between August and the date of the signing of the contract whether or not they were going to receive a licence, or they were not very good businessmen, being aware of the situation, and failing to return to the officials of the department to point out the difficulties and request some adjustment until a licence was issued. This situation is important from the government's standpoint because the government was to receive a much higher commission on the sales in respect of the bar concession than in respect of the dining room concession. You were actually interested in this situation as evidenced by the fact it is spelled out in the implied conditions. The success of this operation depended on the issuing of a liquor licence.

Mr. HEES: Mr. Scott advises me that the decision was made by the government that this group receive a concession in August of 1960, and they were given the concession as of then.

Mr. CAMERON (*High Park*): That fact is spelled out in Mr. Henderson's report.

Mr. HEES: Yes, that is right.

Mr. PRITTIE: When did the airport open?

The CHAIRMAN: I am sure Mr. Hees has to inform himself through Mr. Scott in respect of many of these matters. Perhaps Mr. Scott should answer your questions directly, particularly when they deal with a period of time when Mr. Hees was not responsible. Perhaps you could direct your questions to Mr. Scott.

Mr. CAMERON (*High Park*): I have one further question I should like to ask Mr. Hees, and I am sure he will be willing to give me an answer.

Do you agree with Mr. Wahn that financial precaution should have been taken, and do you agree that when this contract was signed, there being an arrangement requiring these people to produce receipts for the \$350,000 spent on furnishings; someone must have slipped up in not seeing that that was done?

Mr. HEES: Yes.

Mr. CAMERON (*High Park*): It would not be you because you were not the minister then?

Mr. HEES: That is right. It has always been my experience that these matters are checked carefully by the treasury board staff, whose job it is to do just that, making sure that these financial details are satisfactory before the government actually lets the contract. As I have said several times, I feel that it is obvious somebody should have checked these things. I feel the treasury board staff should have made these checks, and that the treasury board itself should have made sure that these checks were made.

Mr. CAMERON (*High Park*): The knowledge that the \$350,000 to be spent on furnishings was actually paid out would have made a big difference to the security of the government; is that right?

Mr. HEES: In looking back at the situation I think there is no doubt in that regard.

The CHAIRMAN: Do you intend to direct your questions to Mr. Scott, Mr. Cameron?

Mr. CAMERON (*High Park*): I should like to ask Mr. Scott or Mr. Henderson when the liquor lounge actually commenced operations. Perhaps Mr. Henderson can tell us when the financial statements first showed a profit from liquor operations?

Mr. SCOTT: Mr. Cameron and Mr. Chairman, the sequence was as follows. Tenders were called in May, 1960. An application was approved by the treasury board in August, 1960. The concessionaire opened in the terminal in December 1960. The lease arrangement we had with the concessionaire was dated January 31, 1961. The liquor licence was issued on February 22, 1961 and I assume that within a very short period of time thereafter liquor would be sold in the lounge.

Mr. CAMERON (*High Park*): So the period of time between the commencement of operations and the obtaining of a licence, if commencement was in December, was a matter of two or three months rather than eight, nine or eleven months?

Mr. SCOTT: The period of time would be three months.

Mr. CAMERON (*High Park*): At that time they were operating. They were not paying the government anything for the use of the concession. They were getting established.

Mr. SCOTT: Yes.

Mr. CAMERON (*High Park*): So it would not be fair to blame the entire financial embarrassment that ensued upon the failure to have a liquor licence.

Mr. HEES: Mr. Chairman, I think we might refer to page 691. Judging by the evidence given by Mr. Scott at page 691, I would think perhaps the department realizes now that too hard a bargain was driven with these original concessionaires because there, on page 690, Mr. Scott says:

When this was being discussed with Aero Caterers, that is when the change took place in the other company. The view was that the other company would be on a better financial basis, and that they were going to have a new deal to start with, and that they were not going to have the same obligation of expense.

Then on page 691:

Mr. Cameron (*High Park*): What was the department's appraisal of them? What advice did they give to the minister who in turn would have to take it to the treasury board, as opposed to Aero?

Mr. Scott: Whoever came in would have to have a better financial deal than the old company had.

So it would seem to me from that that perhaps the department at the time overestimated the potential business that could be done in this concession, and it would appear, perhaps, that the demands made by the department for the payment of \$350,000 were too high judging by the business that did develop actually or the potential that could develop. So I would say probably there were several factors contributing to the lack of profit made by the concessionaires.

Mr. CAMERON (*High Park*): It was not only the liquor licence that was the cause of this.

Mr. HEES: No; I said the liquor licence would certainly have a very big effect upon it.

Mr. CAMERON (*High Park*): But the liquor licence was granted on February 22.

Mr. HEES: Yes, but until a concessionaire knows he is going to have a liquor licence he cannot start preparing for the sale of liquor, he cannot make preparations for the bar and all the things that are necessary. Then, Mr. Cameron, in the three months of operation the public comes to his place of business and finds that it is not the place they thought it was going to be in their first enthusiasm, a place where they could pleasantly sit down and have a drink before, during the after dinner, or in all three cases, so then they decide they are not going to patronize that particular facility again. The first three months of operation could be disastrous. If people decide in that time that your place is not an attractive place to go to for various reasons, it is very hard to pick up that patronage later on.

The CHAIRMAN: Mr. Regan.

I hope we will restrict our discussion to things we have been unable to discover so far.

Mr. REGAN: I would like to follow Mr. Cameron's line of questioning.

I had in mind that not acquiring the liquor licence for this interim period could not have such a profound effect on the eventual success or failure of this particular business. Is it not a fact that any airport restaurants that have been opened in new airport terminals across the country during the past ten years have failed to show money in their early operation, in their first year or so?

Mr. HEES: I would not be able to answer that.

Mr. REGAN: You would not be in a position to know that?

Mr. HEES: No.

Mr. REGAN: In any large new restaurant, in an airport or not, is it not customary in cases of a large undertaking for a company to project its financing over a period of four or five years and to expect some losses in the early period? If that is the case—and I am sure you will agree that that is the case—if this company had been sound financially and if it had been able to look forward to such glowing prospects after it received its liquor licence—such prospects as you described earlier as being the case if the liquor licence existed—would it not have been able to plan its finances in such a way that it could go through this period of famine and still continue its operations, looking forward to the years ahead?

Mr. HEES: I do not know whether or not a restaurant operator plans a loss for a certain period. Most people going into business do not; they expect the business will be a well run and well planned business and that they will start making money right from the start. I would expect the restaurant operator would have every reason to believe that, if he ran a facility which the public enjoyed and if the food, the service and the liquor were good, he would have every chance of making a profit right from the start.

Mr. REGAN: I see. How much difference do you feel the absence of the liquor licence for this three month period would have made with regard to the clientele? I think you mentioned the different types of people who would go there to eat—those who were catching planes and those who were between planes. Certainly you would agree that those between planes would be a captive audience or a captive market, and would have to eat there whether there was liquor available or not.

Mr. HEES: They do not have to eat there; they can eat perfectly well at a much cheaper restaurant downstairs. If there is no particular reason to go upstairs, then most people stay downstairs.

Mr. REGAN: I see; that is a very satisfactory answer.

Mr. Hees, you were a member of the treasury board at the time?

Mr. HEES: No, I was not.

Mr. REGAN: Were you at any time during your years on the treasury benches a member of the treasury board?

Mr. HEES: Oh, yes; as I said earlier, I was a member of the treasury board—I served in the salt mines for about two years—the first two years I was a minister.

Mr. REGAN: During those years did you follow such a course with contracts that came before the treasury board as that which you earlier described?

Mr. HEES: Yes, I think we were very conscientious and looked into the contracts that came before us in a thorough manner.

Mr. REGAN: In the light of the information brought out by Mr. Cameron that it was for a relatively short period of time that these people were without a liquor licence, and aside from the possibility that the department drove too hard a bargain, the question of the experience and ability of these people in assessing how the restaurant should be operated as against what a more experienced group could have done might have led to their downfall?

Mr. HEES: The time when people would have come forward and made suggestions as to how the restaurant should operate would be, I think, at the time when they were bidding on the particular concession. There were lots of discussions at the time with the people who were thinking of bidding on this concession. After all, it is a big and important concession. They were certainly familiar with what was required; they were familiar with the layout and so on. I do not know of any representations by any of the potential concessionaires to the effect that this was too big a facility or that \$350,000 should not be paid by them to decorate the premises. Therefore, if you have

more experienced concessionaires, such as Aero Caterers and the Hilton hotels, agreeing that this seemed like a reasonable proposition—and they all put in their bids on that basis—then I would think it unfair to expect the other company to have some kind of clairvoyance and come forward and say, “Oh, well, I think this, that and the other thing should be different from what you propose.”—

No, I think it is very easy to look back on these things and come up with the right answers, but it is not so easy to do so beforehand.

Mr. REGAN: Fumbles do lose games, though.

Mr. HEES: Yes.

Mr. PIGEON: At that time it was possible for your department to give the authorization to the concessionaires to sell liquor without having the authorization of the province, because it is a federal district, is it not?

Mr. HEES: No, it is not a federal district.

The prime minister of the day was very specific that he would have nothing to do with the issuing of liquor licences or allowing liquor to be sold in our airports. This was a matter of quite some discussion between the prime minister of the day and myself for several years prior to this occasion because there was great pressure brought upon me by all of our members and by a lot of the public to the effect that it would be a sensible and desirable thing to allow the sale of liquor in our airports.

To me, an airport seems to be the most logical place in the world in which to sell liquor because most of the people who would use a facility like that would be people who were between planes. If you are between planes, you are not going to go into a bar when you land at an airport, have a few drinks, and then drive your car. If you are arriving at your destination you get into your car and go to the place where you are heading, and you have your drinks there. However, the people who drink in airports are people who are stranded between flights, who may have two or three hours to spare, and the logical thing for them to do is to pass the time of day in a nice, pleasant bar, because there is nothing else to do. Then, when they get on the plane, even though they perhaps have had too much to drink, there is no harm they can do except annoy their fellow passengers perhaps by a little snoring. There is no danger involved to the public by driving recklessly or anything or that kind. Therefore, to me, it seems a logical thing to have a liquor licence at a restaurant in an airport.

Mr. PIGEON: I ask this question because I heard that the federal government can give authorization for a permit to sell liquor without authorization by the provincial government.

Mr. HEES: I would like to answer that question. I can tell you in an unsure world one very sure thing, that with the prime minister of the day, in my case, it was absolutely impossible to get the authorization of the federal government to allow the sale of liquor in airports, and what was done was to pass it to the provincial government. They made the decision. That is how it was done. But, it was impossible for me, as minister of transport to give the authorization for the sale of liquor in any airport. I can assure you of that.

The CHAIRMAN: Have you a question, Mr. Ryan?

Mr. RYAN: How long was the lease signed on January 31, 1961 to run?

Mr. HEES: I do not know.

Mr. SCOTT: For five years.

Mr. HEES: I am informed five years.

Mr. RYAN: How was the figure of \$350,000 determined for inserting in the lease as a condition of it?

The CHAIRMAN: If the information is not available now we might secure it from Mr. Scott and his department later on.

Mr. RYAN: I have a further question before I leave that.

Were there any contracts between your department and the Quebec liquor licence authority which made it necessary to require furnishings to the extent of \$350,000?

Mr. SCOTT: Not that I am aware.

Mr. RYAN: And, I believe either Mr. Hees or Mr. Scott indicated—and I think it was Mr. Scott—that the department never obtains guarantees from concessionaires, even in a case of a concession of this size. Is this true?

Mr. SCOTT: Yes. Perhaps I could add a word to what I already have said. If it is a case of performance, like a contract for construction, certainly these are cases in which you guarantee yourself in every possible way. But, you must remember that in a concession of this type the real basis is a percentage of the gross revenues. Therefore, actually the department is endeavouring to help the concessionaire to build up his business because the greater the business the concessionaire does the better it is for the department and the more revenue the government gets to maintain its facilities. So, as I said the real basis is a percentage of the gross revenue, and the real protection here is for the department to go in and audit the books of the concessionaire.

Mr. RYAN: But in respect of this case, you have a company of four men, and I take it it is a limited company?

Mr. SCOTT: Yes.

Mr. RYAN: So, they are able to hide behind a charter if they do go in the hole. There is no personal liability on the part of any one of these men. Is that so?

Mr. SCOTT: Yes.

Mr. RYAN: Do you not think it would be wise in future for the department, in cases of this kind, to require private covenants in addition to a lease so we will not have failures of this kind, particularly when you have relied upon the financial strength of these men in the first place? We all know that a bank, in the case of private limited companies, will not in any case accept the covenant of the limited company but it will require the covenants of the private entrepreneurs behind the charter. Why could the government not make a requirement of this kind in the future?

Mr. SCOTT: Well, the government certainly could make such a requirement yes.

The CHAIRMAN: Mr. Ryan, this individual case will form the subject of some discussion when we, as a committee, make our recommendations and file our report.

Mr. RYAN: Thank you, Mr. Chairman. I have just one thing to add. I am interested in how the figure of \$350,000 is arrived at as a condition of the lease.

The CHAIRMAN: We will secure that information and it will be available. I have one question from Mr. Loiselle and then a question from Mr. Rock.

As you know, we have a lot of distinguished gentlemen who have come from all parts of Canada to be here in connection with the Canada Council discussion, and I would hope we soon would be able to get on with that. I know we have had an excellent dry run and now that they have watched this experiment they will know what they will be up against.

Mr. LOISELLE: Mr. Chairman, I will not be long as most of my question already have been answered. However, by the way the discussion went this morning I would gather that the whole problem centred around the liquor licence, which would have an effect upon the tenants. If the government did los

\$167,400 in respect of that deal do you think it was because the government at the time thought it politic not to have any liquor in their airport restaurants?

Mr. HEES: No. It is easy to answer that question, because the federal government as, I think it was, of March 1, of that year, 1960, had by a stated policy said that liquor could be sold in any airport in Canada provided the concessionaire applied to the provincial government and the provincial government granted a licence exactly in the same way as they do to concessionaires or restaurant owners in other parts of the province. So, it was 100 per cent up to the provincial government in this case to grant the licence. The federal government said: "You can serve liquor if the provincial government gives you a liquor licence." And the provincial government did not for some time, and that hurt the concessionaire's operation.

Mr. LOISELLE: Are you sure that the date you gave, March 1, 1960, is the correct one?

Mr. HEES: No; I said I thought that was the time. It was about then. However, you can check that; it might be a month or so out. Have you any idea, Mr. Scott?

Mr. SCOTT: Yes, it was March.

Mr. HEES: I am told that was the right date. It was an important date to me.

Mr. LOISELLE: Could you tell us why the government changed its mind in that connection?

Mr. HEES: I think perhaps I was able to persuade the prime minister of the day that this was a sensible policy, and being a reasonable man he accepted my proposition.

The CHAIRMAN: Would you proceed, Mr. Rock.

Mr. ROCK: I think it was a sensible policy.

Mr. HEES: Thank you. A lot of people believe it to be.

Mr. ROCK: A lot of confusion has arisen over the issuing of the licence and the date. Many say it was a month after the contract was signed and others say it was six or seven months after. Is it not possible that two licences were involved, one for the lounge and one for the restaurant and they were unable to use the lounge licence for the restaurant and the restaurant licence for the lounge. Perhaps the confusion comes from this. Possibly the lounge licence was issued and the restaurant licence was not, and maybe they overlooked applying for it.

Mr. HEES: I do not know. All I know is that I went in several times and could not buy a drink.

Mr. ROCK: In the lounge and in the restaurant?

Mr. HEES: In both.

The CHAIRMAN: Thank you, gentlemen.

Mr. PIGEON: I have one last question.

Mr. Hees, do you know the reason the provincial government waited eight months to grant this liquor licence?

Mr. HEES: No, I do not know. I have no idea.

Mr. GRAY: On a point of order, Mr. Chairman,—

The CHAIRMAN: Mr. Gray on a point of order.

Mr. GRAY: Mr. Chairman, although I do not want to interrupt Mr. Pigeon's question I think the evidence has come out repeatedly that there was not a delay of eight months in issuing the licence. At most, it was issued within two or three months after the concession began to operate and one month after the contract was signed.

The CHAIRMAN: That is the evidence before us.

Mr. Rock has raised another question and we will try to find out if there was anything involved.

Mr. SCOTT: There was just the one.

The CHAIRMAN: I am informed there was just one licence granted, so the answer is it was two or three months after the licence was granted. This is the information which is now presented to the committee by the officials of the department.

Have you a question, Mr. Leblanc.

Mr. LEBLANC: I have one last question. On page 692 I made a statement, which reads as follows:

Then, the financial difficulties experienced by the first group, which subsequently formed itself into a corporation, are not attributable to the fact that the Department of Transport would have charged them an excessive amount for the lease? I believe they themselves set the amount of the lease they were willing to pay, and it was on that tender that they obtained it. Then the financial difficulties would arise from the fact that they did not supply enough capital to start the work and to foresee the possible losses, as is usually done in private enterprise.

Mr. HEES: I think it is interesting to see, and I would like Mr. Scott to check me on this, that after the first concessionaire ran into difficulties, from the evidence I read it would appear that the department spoke to the other two applicants who had not been successful, and that only Aero Caterers were interested in taking on the contract. I think that that is very significant. It would appear that there was perhaps on somebody's part an overestimation of the possibilities for making profit in this operation, and once Hilton had had a look at how the operation went, the potential number of diners and drinkers, or whatever you would like to call them, it had become apparent that Hilton were no longer interested. It would, therefore, appear that perhaps the department had overestimated the possibilities of making a profit on a large scale in a concession of this kind. After all, this was the first concession of this kind that we had let anywhere in Canada. Up until that time there were no really big airports in operation. This was the first time we were able to permit the sale of liquor, if the provincial government was agreeable, and so this was not only an experiment on behalf of those applying for the concession and on the part of the person who received the concession but also an experiment on the part of the government as well. This was a new venture, and we are all human, and people do make mistakes. It would appear that the department perhaps overestimated the potential and asked too high a financial requirement from the people operating the concession. It could be.

Mr. RYAN: Mr. Chairman, I would just like to ask Mr. Hees at present whether this leaseholder got a new lease or just another contract?

Mr. HEES: This happened after I had left.

Mr. RYAN: Mr. Scott, was there a new lease made out for the present holder?

Mr. SCOTT: A new, amended lease.

Mr. RYAN: Is there any option of renewal past the original term of five years?

Mr. SCOTT: It could be renewable.

Mr. RYAN: For how long a term?

Mr. SCOTT: It could be on five year terms.

(Translation)

Mr. CHOQUETTE: Mr. Hees, in order to save the principle of bilingualism I will put my question to you in French, as I know you can answer in French.

When the contract was granted the operator; did he let the authorities of your department know, directly or indirectly, that he was sure of getting his licence to sell liquor?

Mr. HEES: There was nothing we could do in my department to ensure that a licence would be granted for—

Mr. CHOQUETTE: I think you misunderstood my question. What I want to ask you is whether the person who was granted the contract let you know directly or indirectly that he was sure of getting a licence to sell liquor?

Mr. HEES: The answer is no.

Mr. CHOQUETTE: Thank you.

(Text)

Mr. GRAY: I have one question to ask, Mr. Hees. Could you tell me who the members of the treasury board were at the time this contract was approved?

Mr. HEES: No, I could not. The members of the treasury board change from time to time. This was where usually some of the new members of the cabinet served, and after a while older members of the cabinet who had done their penance were allowed to get off the treasury board and new members came on. The personnel of the treasury board changed quite often, so I would not know who the members were at the time.

The CHAIRMAN: We have had a very useful and fruitful—to use the two words most commonly used—discussion, and we are all obliged to Mr. Hees for shedding light not only on this issue but incidentally on the machinery of the treasury board. I am certain that what he said today will be of considerable value to us when we come to make our report on this, among other things. Thank you very much, Mr. Hees, for appearing here. We enjoyed having you, I am sure.

Mr. CHOQUETTE: I have a question which is out of order. Is it your intention to go out of politics?

Mr. HEES: This is a difficult question to answer.

Thank you very much, Mr. Chairman. I appreciate the privilege of coming here very much. It reminds me of the old days. It was a great pleasure and privilege to see you all again. I enjoyed this morning very much indeed. Thank you so much.

Mr. CHOQUETTE: Come again.

Mr. HEES: Any time at all, if you have any questions to ask me.

The CHAIRMAN: Gentlemen, it is now twenty-five minutes to 12 o'clock. We have a lot to do. I would hope that before we depart this morning we will have had an opportunity to introduce the chairman and members of the Canada Council and their officials and that we will give an opportunity to Mr. Henderson to at least initiate a discussion by starting into the beginning of the financial reports we will be considering. Before I call on Mr. Henderson I wonder whether I could introduce to you Mr. Jean Martineau. Mr. Martineau, would you come up here, please, sir?

We are very pleased to have you here, Mr. Martineau. I am going to ask you, before we call on Mr. Henderson to initiate the discussion, whether you would mind introducing to us the members of the council and the officials who have come with you so that during the course of our discussions, if questions need to be re-routed through you to any member of the council, we could have this as part of our proceedings, and we will have this introduction before I call on Mr. Henderson.

Mr. JEAN MARTINEAU, Q.C. (*Chairman, Canada Council*): Thank you, Mr. Chairman.

(Translation)

Speaking after you, Mr. Choquette, I think I should begin my comments in French. We greatly appreciate the opportunity you have given us to explain what the Canada Council are doing. It is by no means easy, in fact it is very difficult and very complicated. But I think that after the lesson we had for two hours as we listened to the questions asked of Mr. Hees and to the answers he gave, we shall be better able to satisfy you. But we hope you will not be as hard on us as you, or at least some of you, were on him.

(Text)

May I say, gentlemen, that you will have to be somewhat lenient with me if very often I cannot answer your questions. My nomination is so recent that I have been unable, in spite of my good will, to master everything that goes on in the council. In due time I will, and that is why this morning, I will call very often on, firstly, Mr. Faribault, a member of the council, and on the director of the council, Dr. Trueman, and on the assistant directors Messrs. Bussière and Dwyer. When it comes to finance I will call on Mr. Fullerton, and also of course on our only secretary-treasurer, Miss Lillian Breen.

The CHAIRMAN: Thank you very much indeed, Mr. Martineau, for this introduction.

Gentlemen, let me tell you that the course of our proceedings is as follows, subject to any variation on the part of the committee, we have had filed and tabled with the committee what I refer to as the long form reports which the Auditor General makes and which should be in the possession of the committee.

Mr. FISHER: Mr. Chairman, I want to get one thing cleared up right away. The Canada Council is appearing before us not only in connection with the Auditor General's report but, I would understand, in the continuity of previous appearances here. In other words, the opportunity for questions can be much more ranging. I would like this cleared up.

The CHAIRMAN: I think so. I examined the proceedings of the committee when the Canada Council was before the committee previously and I observed that without any objection this was the procedure followed. Not only is the financial statement before us but, by the terms of reference, the reports of the Canada Council which you gentlemen have. This being the case, the terms of reference in the House of Commons include these reports and matters relevant to and arising from these reports will also be subject to discussion and question. I think this probably answers your question.

I was about to explain to Mr. Martineau and the members of the council who are appearing before us that the usual routine is for Mr. Henderson, as Auditor General, to go through the references which are contained in his report as Auditor General to the House of Commons for the two years in question, and, also, the long form reports which he has filed in his position as auditor pursuant to the statute. Questions then may be directed and comments made arising out of the material in the two long form reports and, of course, on matters referred to in the report of the council.

In the hope of informing the committee with regard to the general area of discussion, between now and the time of our adjournment, Mr. Henderson might proceed to report to us. This will give us a basis for our discussion the afternoon.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Thank you, Mr. Chairman.

I believe I am correct in assuming it might be advantageous for me, as expeditiously as possible, to go through the text of the long form reports which you have, beginning with the 1962 one.

OTTAWA, July 31, 1962.

The Chairman and Members,
The Canada Council
Ottawa.

We have completed our examination of the accounts and financial transactions of the council for the financial year ended March 31, 1962 and have reported thereon under date of May 25, 1962 to the Canada Council and to the Prime Minister of Canada, in compliance with the requirements of section 22 of the Canada Council Act, c.3, 1957.

Our examination was made in accordance with generally accepted auditing standards and included a general review of the accounting procedures and of the system of internal control, together with such tests of the accounting and related records and financial transactions as we considered appropriate to the circumstances.

A copy of this report is being forwarded to the Prime Minister of Canada for his information.

For convenient reference we are attaching, as exhibits, copies of the financial statements for the year ended March 31, 1962.

Endowment Fund

Income and Expenditure

Income earned which remains unexpended at the end of a financial year is available for expenditure in the succeeding year or years. This amount is shown in the following summary of income and expenditure transactions for the year ended March 31, 1962:

Balance available for expenditure as at April 1, 1961 ..\$	417,810
Add: Income for the year	2,955,665
	<hr/>
	3,373,475
Deduct: Expenditure for the year	3,100,092
	<hr/>
Balance available for expenditure as at March 31, 1962	273,383
	<hr/>

Investment income earned during the year under review is compared with the corresponding amounts earned in the preceding year in the following summary:

	Year ended March 31 1962	1961	Increase or Decrease (—)
Interest on bonds and debentures ..\$	1,828,451	\$ 1,938,333	\$ -109,882
Dividends on common stocks	271,145	285,522	— 14,377
Interest on mortgages	845,053	683,472	161,581
Discount on Treasury Bills	11,016	11,891	— 875
	<hr/>	<hr/>	<hr/>
	2,955,665	2,919,218	36,447
	<hr/>	<hr/>	<hr/>

Average return for year on

original Fund	5.91%	5.84%
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Expenditure during the year under review compares with the corresponding amounts in the preceding year as follows:

	Year ended March 31 1962	1961	Increase or Decrease (—)
Grants and awards authorized	\$ 2,551,150	\$ 2,543,846	\$ 7,304
Canadian National Commission for UNESCO (other than indirect administrative expenses)	56,490	45,325	11,165
Canada Council Train	25,298	33,416	— 8,118
Administrative and other expenses	467,154	375,711	91,443
	<u>3,100,092</u>	<u>2,998,298</u>	<u>101,794</u>

The expenditures in the various administrative and other expense categories during the year under review are shown in comparative form in the Statement of Income and Expenditure and Surplus (Exhibit II). Salaries increased by \$14,628 to \$213,789 due in greater part to normal salary revisions and the payment of separation gratuities. The increase of \$8,354 to \$32,572 for Council meetings is due mainly to the fact that six meetings were held during the year to March 31, 1962 whereas only five meetings were held during the preceding year. The increase of \$17,514 to \$32,669 in charges for the safekeeping and registration of securities resulted from an adjustment for the accrual of safekeeping fees payable to the Toronto General Trust Corporation. Fees are payable, not in advance, in the amount of \$10,000 semi-annually in May and November. For the 1960-61 financial year no provision was made for that part of the fee payable in May 1961 which had accrued due to March 31st. Conversely, the full fee due for payment in May 1962 was taken on charge in the year under review. The end result was that the accounts for 1961-62 were charged with fees covering an eighteen month period. Advisory service fees, which increased by \$43,000 to \$49,250, were accounted for by payments of \$17,500 (including \$8,000 for 1960-61) each to the Humanities Research Council of Canada and the Social Science Research Council of Canada, \$10,500 (including \$3,000 for 1960-61) to The Canada Foundation and \$3,750 for the three months ended May 31, 1962 to Fullerton, McKenzie and Associates Ltd. for the management of the Council's investment portfolio and related services. Office furniture and equipment purchased during the years cost \$4,427 for which there was no comparable charge in the previous year.

Balance Sheet Items

Cash—\$262,086

Bank balances totalling \$261,661 were confirmed directly to us by the depositaries and reconciled with the records. The remaining \$425 of this item consisted of a deposit, which was confirmed, with Trans-Canada Air Lines in connection with air travel credit cards.

Investments—\$54,528,248

The council's treasurer, Mr. D. H. Fullerton, resigned effective March 1, 1962, to head a firm of consultants specializing in the management of security portfolios for clients. Through an agreement with the firm, Mr. Fullerton's services continued to be available for the purpose of managing the council's portfolio and providing reports and statements as required, on the same basis as during his tenure as treasurer. The agreement, which may be amended or cancelled by either party on three months' notice, requires payment to the firm

of an annual fee of \$15,000 by quarterly instalments in advance, and of telephone costs, not to exceed \$5,000 per annum, incurred in transacting the Councils' business.

The classes of securities that may be acquired as investments of the endowment fund, and the limits of holdings of any class and of any particular securities, have been approved by the council and are subject to change from time to time by resolution of the council. Within this general framework securities are acquired, managed and disposed of with the advice of the investment committee, as required by section 18 of the Canada Council Act.

Section 16 provides that any expenditure made for the purposes of the act (other than capital assistance grants to universities) may be paid out of the income earned by Endowment Fund investments. The investment portfolio is planned to provide the maximum return consistent with the necessity of maintaining the principal of the Fund intact. Net profits totalling \$3,155,233 which have been realized on the disposal of securities since the council was established are carried on the Balance Sheet (Exhibit I) as a general reserve against the possibility of future losses.

An analysis of the endowment fund investment portfolio at March 31, 1962 follows:

Treasury bills:

Canada	\$ 298,107	
Provincial	149,751	
	<hr/>	
	447,858	
Short-term corporate notes	483,042	
	<hr/>	
		\$ 930,900

Bonds and debentures:

Canada and Canada guaranteed	13,599,950	
Provincial and provincial guaranteed	6,009,625	
Municipal	3,219,668	
Corporate	8,709,433	
	<hr/>	
		31,538,676

Common stocks and convertible
debentures

debentures	7,063,294	
Stock warrants	4,000	
	<hr/>	
		7,067,294

Mortgages:

Insured under N.H.A.	14,248,436	
Other	742,942	
	<hr/>	
		14,991,378
		<hr/>
		\$54,528,248
		<hr/>

Treasury bills, bonds and debentures are valued at amortized cost, mortgages at amortized cost less principal repayments, and common stock and stock warrants at cost. The market value, \$42,258,855, of investments (excluding mortgages) at the year-end was \$2,721,985 in excess of the book value. The principal value of mortgages held amounted to \$15,163,574 which was \$172,196 in excess of the book value.

Included in the investment portfolio are 3,500 "bonus" shares in Chinook Shopping Centre Limited. These have not been valued as they were received by the council without cost. At the end of the preceding year 7,500 of these "bonus" shares were on hand. During the year under review 4,000 shares were sold and the proceeds of \$11,600 were credited to the reserve arising from net profit on disposal of securities.

The volume of transactions in endowment fund investments was again heavy, the objective, as in previous years, being to enhance yield and to realize attractive capital gains. The following summary gives details of the purchase and sale transactions entered into and completed during the 1961-62 financial year:

	Purchases	Sales
Treasury bills—Canada and Provincial	\$ 2,908,359	\$ 2,958,011
Bonds and debentures:		
Canada and Canada guaranteed	34,390,832	32,062,331
Provincial and provincial guaranteed	13,152,312	13,339,005
Municipal	3,620,321	8,193,467
Corporate (including short-term notes)	17,053,824	14,756,751
	<u>68,217,289</u>	<u>68,351,554</u>
Common stocks	<u>783,590</u>	<u>981,778</u>
Mortgages:		
Insured under N.H.A.	2,120,410	
Principal repayments		612,556
	<u>\$74,029,648</u>	<u>\$72,903,899</u>

The securities are held in safekeeping and were verified by certificates furnished directly to us by the depositaries.

Property, including furnishings and effects, donated to council, at nominal value—\$1

Section 20 of the Canada Council Act provides that:

The Council may acquire money, securities or other properties by gift, bequest or otherwise and may... expend, administer or dispose of any such money, securities or other such property... subject to the terms, if any, upon which such money, securities or other property was given... to the Council.

In November 1961 the council accepted as a gift Stanley House, New Richmond, province of Quebec, together with household furnishings and effects. It is the council's intent to use this property not only as a place where artists may work but also as the locale for discussions on policy with experts in various fields.

For accounting control purposes the property has been nominally valued at \$1. At the time of our audit the legal formalities necessary for the transfer of the property to the council had not been finalized.

Accounts payable—\$73,706

The accounts payable at the close of the year were verified by reference to appropriate supporting documents. An analysis follows:

Unexpended donations	\$19,023
Canadian National Commission for UNESCO	10,313
Securities registration fees and service charges	14,931
Social Science, and Humanities, Research Councils of Canada	19,000
Office expense	4,348
Council meetings expense	4,333
Miscellaneous	1,758
	<hr/>
	\$73,706
	<hr/>

Under section 20 of the Canada Council Act, the council may acquire money by way of gift and dispose of it, subject to the terms on which the gift is given. The accounting practice is to treat these conditional donations as liabilities, until disbursed for the purposes designated. Unconditional donations may be taken into income and thus be available for expenditure under section 16 of the act. The amount of \$19,023 shown above represents the unexpended balance of donations received for specific purposes, to be expended in accordance with the conditions attached to them. Donations totalling \$45,025 have been received to date by the council.

The following is a summary of the conditional donations received and disbursed during the year under review, together with the unspent balances:

Unspent balances April 1, 1961	\$15,187
Add: Donations received during the year	10,995
	<hr/>
	26,182
Less: Disbursements during the year	7,159
	<hr/>
Unspent balances March 31, 1962	\$ 19,023
	<hr/>

All disbursements from donations received have been made in accordance with whatever terms were specified by the donors.

In our last year's report we commented upon the advisability of reviewing the income tax status of acknowledgment receipts issued by the council for conditional donations transmitted to an organization outside Canada. During the year under review the situation was clarified by a reference to the Department of National Revenue. The council's customary acknowledgment receipts are acceptable for the donors' income tax purposes provided that the purposes for which the gifts are made are within the objects of the council and fit normally into its program. Otherwise, any receipts issued should clearly state the conditions on which the gifts were made.

Amounts payable in respect of securities purchased but not received—\$566,757

During the latter part of March 1962 orders were placed with brokers for the purchase of securities at a cost of \$566,757 for delivery during April 1962. The amount payable was verified by reference to the relevant purchase contracts. Details are:

	Date of		Amount
	Purchase	Delivery	
Government of Canada, \$300,000			
Treasury bills due June 15, 1962	March 30	April 2	\$298,107
Alberta Municipal Financing Corporation, \$270,000 5½			
per cent bonds due April 16, 1984	March 27	April 18	268,650
			<hr/> 566,757 <hr/>

Provision for grants and awards approved—\$1,659,339

The amounts involved in project and scholarship awards are provided for in the accounting records following approval of such awards at a meeting of the Council. The balance of unpaid awards approved by the Council to March 31, 1962 includes provision of \$176,250 for estimated travel and university fees.

The transactions for the year may be summarized as follows:

Balance unpaid as at April 1, 1961	\$1,898,085
Add: Net authorizations during the year	2,576,448
	<hr/> 4,474,533
Less: Paid during the year	2,815,194
	<hr/> 1,659,339 <hr/>

The awards outstanding for more than 12 months were reviewed with your officers who informed us that as far as could presently be ascertained they would eventually be paid.

Reserve arising from net profit on disposal of securities—\$3,155,233

This reserve amounted to \$1,530,855 at March 31, 1961. During the year under review it was increased by profits totalling \$1,818,906 and decreased by losses of \$194,528, realized on the disposal of securities, thereby bringing the balance of the reserve to \$3,155,233 at March 31, 1962.

The reserve is available to provide against possible future losses realized from disposal of endowment fund investments and is therefore not available for expenditure purposes.

UNIVERSITY CAPITAL GRANTS FUND

Cash—\$52,149

The bank balance of \$52,149 at March 31, 1962 was confirmed directly to us by the depositary and reconciled with the records.

Investments—\$36,007,045

The investments comprising the university capital grants fund are restricted by section 17(3) of the act to bonds or other securities of or guaranteed by the government of Canada. The investment portfolio at the year end consists of:

Treasury bills of Canada	\$ 7,686,495
Government of Canada bonds	28,320,550
	<hr/>
	36,007,045
	<hr/>

All securities in the portfolio were valued at amortized cost. The market value of the government of Canada bonds held at the year end was \$28,444,275, which was \$123,725 in excess of the book value. The securities are held in safekeeping and were verified by a certificate furnished directly to us by the depository.

The investments in the university capital grants fund were reduced progressively during the year in order to provide funds for approved grants to the universities, with the result that the year end balance shows a reduction of \$3,487,515 from the principal amount of \$39,494,560 at March 31, 1961. A number of sales and purchases were made during the year for the purposes of enhancing the yield on the investments or realizing capital gains. The volume of these transactions may be summarized as follows:

	Purchases	Sales
Treasury Bills	\$14,486,036	\$ 7,349,247
Canada and Canada guaranteed bonds	93,300,168	103,859,240
	<hr/>	<hr/>
	107,786,204	111,208,487
	<hr/>	<hr/>

Amounts payable in respect of securities purchased but not received—
\$149,054

The amount of \$149,054 represents a commitment entered into on March 30, 1962 for delivery on April 2, 1962 of \$150,000 government of Canada treasury bills due June 15, 1962. The amount was verified by reference to the relevant purchase contract.

Provision for grants approved—\$5,941,472

This represents the year end balance of grants approved which have not yet been paid. Transactions in the account since the inception of the fund are summarized as follows:

March 28, 1957 to	Authorized	Paid	Unpaid balance
March 31, 1958 .	\$4,084,300	\$1,340,400	\$2,743,900
1958-59	8,732,264	3,542,925	7,933,239
1959-60	9,344,062	6,960,226	10,317,075
1960-61	3,367,651	8,038,391	5,646,335
1961-62	6,532,639	6,237,502	5,941,472
	<hr/>	<hr/>	
	32,060,916	26,119,444	
	<hr/>	<hr/>	

The unpaid balance at the end of the year consisted of grants approved during 1961-62 and previous years as follows:

1958-59	\$ 500,000
1959-60	642,250
1960-61	964,096
1961-62	3,835,126
	<hr/>
	5,941,472

The above balances were reviewed with your officers who confirmed that the outstanding grants will be paid upon satisfactory completion of the work for which the grants were made.

Principal of Fund—\$30,333,416

Section 17 of the Canada Council Act provided for the establishment of a university capital grants fund to be credited with an amount of \$50 million, from which grants may be made to universities and similar institutions of higher learning by way of capital assistance in respect of building construction projects to promote the study of the arts, humanities and social sciences. Authority to invest money standing to the credit of the fund, within prescribed limits, is given by the same section.

The changes in the fund during the year under review are shown in summary form on the balance sheet (exhibit I). The principal amount of \$30,333,416 remaining at March 31, 1962 includes \$12,394,333 of interest earned and profits realized since the inception of the fund, which latter amount has not as yet been allocated by the Council either to the provinces or to universities.

The question of the basis of allocation of the accumulated interest and profits has been under active consideration by the council. Opinions have been received from members of three legal firms. Two of them support the view that, by reason of the restrictive formula comprised in section 17(2)(b) of the act, calculations for the purpose of determining increases in provincial limits to cover interest earned and profits realized by the fund can only be made on the basis of population. The third is that in allocating interest and profits the act does not preclude taking into account sums already paid to institutions, which is known as hotchpot, so that unspent balances and population would both be factors in the allocation.

At its February 1962 meeting the council decided to accept the hotchpot or trust fund approach to the distribution of the interest and profits, which had been regarded favourably in the third opinion referred to above, and to accept the 1956 census as the "latest census" referred to in the governing act, as the basis for distribution of the fund. However, the matter was considered further at the council's May meeting when it was agreed that "since any kind of discussion with the government is almost impossible at the present time and it would be most difficult, for instance, to discuss the possibility of an amendment to the act which would clear up what seems to be a controversial matter", the February resolution should be held in abeyance until the autumn of 1962.

In this connection we were advised by the director on May 18, 1962 that the \$30,333,416 principal of the university capital grants fund at March 31, 1962 included \$12,394,333 in respect of interest earned and profits realized since the inception of the fund, and that (a) no part of this sum had been allocated to or paid to the provinces and universities under the hotchpot distribution formula up to March 31, 1962, and (b) no acts were taken by the Council prior to that date which, in his opinion, would have the effect of committing the

Council to allocate the accumulated interest on profits in accordance with the hotchpot distribution formula.

Full opportunity was given to examine all vouchers, records and accounts required for the purposes of the examination. The co-operation extended to the audit office staff by the director and other officers of the council is acknowledged with appreciation.

We shall be glad to provide you with any additional information you may wish in connection with our examination.

A. M. HENDERSON,
Auditor General.

EXHIBIT I

THE CANADA COUNCIL
(Established by the Canada Council Act)
BALANCE SHEET AS AT MARCH 31, 1962
(with comparative figures as at March 31, 1961)

Endowment Fund

ASSETS		LIABILITIES	
	1962	1962	1961
Cash.....	\$ 262,086	\$ 73,706	\$ 27,174
Amounts receivable in respect of securities sold but not delivered.....	439,400	566,757	661,645
Interest accrued on bonds and debentures.....	938,083	1,659,339	1,898,085
Investments:		3,155,233	1,530,855
At amortized cost:		50,000,000	50,000,000
Treasury bills, Canada and provincial, and short term corporate notes.....	\$ 930,900		
Bonds and debentures (market value \$2,050,655).....	31,538,676		
Mortgages insured under National Housing Act (1954) \$14,061,268, other \$742,942, including accrued interest \$187,168 (principal value \$15,103,574).....	14,901,378		
	47,460,954		
At cost:		273,383	417,810
Common stocks and warrants (market value \$9,277,300)....	7,067,294		
	54,528,248		
Property, including furnishings and effects, donated to Council—at nominal value.....	1		
	55,728,418	55,728,418	54,535,569

Note: The Council is committed to participate in financing the costs of construction of two buildings in Toronto. It is anticipated that the transactions will be completed late in 1962, whereupon the Council will purchase a \$500,000 interest in each of the two mortgages.

Cash.....	\$ 52,149	\$ 18,083	Amounts payable in respect of securities purchased but not received.....	\$ 149,054	\$ —
Interest accrued on investments.....	364,748	475,683	Provision for grants approved.....	5,941,472	5,646,335
Investments at amortized cost:			Principal of Fund:		
Treasury bills of Canada.....	\$ 7,686,495	543,273	Balance as at April 1, 1961.....	\$ 34,341,991	34,597,911
Bonds of Canada			<i>Add:</i>		
(market value \$28,444,275).....	28,320,550	38,951,287	Interest earned on investments.....	1,620,476	1,871,002
			Net profit on disposal of securities.....	903,588	1,240,729
	36,007,045	39,494,560		36,866,055	37,709,642
			<i>Less:</i>		
			Authorized grants under section 9 of the Act.....	6,532,639	3,367,651
				30,333,416	34,341,991
				36,423,942	39,988,326

Certified correct:

A. W. TRUEMAN

Director

Approved:

D. B. WELDON

Chairman

The above Balance Sheet and the related Statement of Income and Expenditure and Surplus have been examined and reported upon under date of May 25, 1962 to the Canada Council and the Prime Minister of Canada, as required by section 22 of the Canada Council Act.

A. M. HENDERSON

Auditor General of Canada

STANDING COMMITTEE
THE CANADA COUNCIL

Endowment Fund

Statement of Income and Expenditure and Surplus
for the year ended March 31, 1962

(with comparative figures for the year ended March 31, 1961)

	1962	1961
Balance of Surplus as at April 1, 1961	\$ 417,810	\$ 496,890
Income—Interest and dividends earned	2,955,665	2,919,218
	<u>3,373,475</u>	<u>3,416,108</u>
Expenditure:		
Authorized grants and awards	\$ 2,551,150	2,543,846
Special project—The Canada Council train	25,298	33,416
Canadian National Commission for UNESCO (other than indirect administrative expenses)	56,490	45,325
Administrative and other expenses:		
Salaries	\$ 213,789	199,161
Employees' welfare benefits	14,736	13,303
Rent	24,630	25,432
Council meetings	32,572	24,218
Printing and duplicating	33,708	23,036
Office and sundry expenses	24,725	22,590
Consultants' fees and expenses ..	2,668	17,900
Security safekeeping and registra- tion charges	32,669	15,155
Travel	10,048	9,363
Members' honoraria	9,550	8,800
Telephone	9,051	6,624
Advisory service fees	49,250	6,250
Visiting lecturers' expenses	—	2,726
Entertainment	1,360	853
Legal and other fees	3,971	300
Office furniture and equipment .	4,427	—
	<u>467,154</u>	<u>375,711</u>
	<u>3,100,092</u>	<u>2,998,298</u>
Surplus at March 31, 1962 available for expenditure under section 16 of the Canada Council Act	273,383	417,810

Note: The administrative expenses shown in the above statement include expenses relating to the administration of the university capital grants fund, and to the provision of the Secretariat for the Canadian National Commission for UNESCO.

You might open up the balance sheet for the Canada Council as at March 31, 1962. This is at the back of the 1962 long form report, and it is a double paged spread. You will see that the council's balance sheet is a twofold one; first of all, it deals with the endowment fund and then with the university capital grants fund. On the next page, which is exhibit II, there is the statement of income and expenditure and surplus for the year.

You will recognize this report as similar in appearance to the one we followed in the case of the Canadian Broadcasting Corporation. In dealing with 1962, before we move on to 1963, I will seek to move along fairly fast on the basis that any questions which might be raised can be raised when we are reading the later information for 1963, because the same pattern is followed.

The first page is self explanatory. As you know, the Canada Council is a separate creation of parliament and its line of communication is with the Prime Minister. As you will note on the first page, this report is addressed to the chairman and members of the Canada Council, and a copy of this report is being forwarded to the Prime Minister of Canada for his information.

We will now take up the endowment fund. First of all, in respect of the income and expenditure, you will see that the income earned which remains unexpended at the end of a financial year is available for expenditure in the succeeding year or years. The balance available for expenditure as at March 31, 1962, is \$273,383. The investment income earned during the year under review is compared with the corresponding amount earned in the preceding year, and the average return for the year on the original fund in 1962 was 5.91 per cent, a slight increase over the previous year. I might say that the average return for the year on the basis of cost—that is, the average yield was 5.42 per cent for 1962.

On page 3 you will see a brief summary of expenditures of the council which total \$3,100,000 in 1962 as compared to \$2,998,000 in 1961. There follows some explanation of the reasons for the increase and the decrease shown in the table. I do not think I need spend very much time on these. The explanation continues over onto page 4 where reference is made to changes in some of the fees—advisory service fees—and related matters. The council follows the policy of writing off its office furniture and equipment rather than carrying them as an asset, the way you saw it in the case of the Canadian Broadcasting Corporation.

We will now take the balance sheet item. First of all, I deal with the cash, which is routine. We then come to the most important figure, investments. You will see that the endowment fund portfolio, based on amortized costs, stood at \$54,500,000 at the close of March 31, 1962. This investment portfolio always has had the very close attention of Mr. Fullerton who was the council's treasurer until March 1, 1962, who is with us today and who still supervises the operations of this portfolio.

If you will turn to page 6, you will see a rough analysis of the endowment fund investment portfolio at the close of the year, showing how much is in treasury bills, how much is in bonds and debentures, and how much is in common stocks and in mortgages insured under N.H.A.

In the paragraph underneath, reference is made to the fact that the market value at the close of the year was in excess of the book value.

At the top of page 7, reference is made to some of the changes during the year. You will see that some bonus stock was issued, and that proceeds of some \$11,600 were earned.

The small table on page 7 shows the details of the purchases and sales transactions entered into during the fiscal year we are looking at. The securities are held in safekeeping and which is customary in the course of our auditing we accept certificates furnished directly to us by the depositaries. There is reference to a property item shown at a nominal value of \$1. I believe the principal property is represented by a gift which the council had received in New Richmond, Quebec, to which we will be making some further reference.

Now we come to accounts payable which are fairly standard; they simply represent unpaid bills of the council. On page 9 a reference is made to

donations, and I might say, Mr. Chairman, that this is something which interested the committee in its discussions both in 1961 and again last December when I think some questions were put to the management in respect of the progress they were making in the field of donations. When we come to the 1963 report, you will see that they have a very excellent record to show following on a large bequest which came in in that year, and I believe in the next fiscal year also.

The point at the bottom of page 9 with reference to income tax receipts is typical of the type of reference made as a result of our audit findings, and one which I think I am correct in saying has now been cleared up.

Page 10 refers to a balance sheet item of amounts payable in respect of securities purchased which had not been received at the end of the period.

The provision for grants and awards refers to amounts involved in projects and scholarship awards which are set up following their approval at a meeting of council. You will see some elaboration of the transaction which indicates that they have a carry forward figure at the beginning of each year.

We review these awards with the officials of the Council to satisfy ourselves that they represent amounts that eventually are going to be paid.

We now have at the top of page 11 an explanation of a balance sheet item. This is the realized profit made from the disposal of the investment portfolio over the years. In accordance with the provisions of the Canada Council Act this reserve is set up to provide against possible future losses realized from the disposal of endowment fund investments. It is not available for expenditure purposes.

I thought you would be quite interested to see that this figure was arising, as it does, from actual profits made as a result of council's stewardship of its investment portfolio ever since it started.

Now we turn to university capital grants fund, which is the second section of this balance sheet, and of course the first reference is to cash. Gentlemen, here we have investments, in their investment portfolio, in this case of \$36,000,000. As I think the members are aware, the investments present in the university capital grants fund are restricted by section 17, subsection (3) of the act, to bonds or other securities of or guaranteed by the government of Canada. The market value of government of Canada bonds shown here was slightly in excess of the book value; and again, these securities are held for safekeeping, and are verified by us in the course of our work.

At the top of page 12 there is again a tabulation showing the volume of sales and purchases made during the year. This shows that a number of sales and purchases were made during the year for the purposes of enhancing the yield on the investments, or realizing capital gains.

There is a small item of accounts payable mentioned in the next paragraph having to do with securities purchased but not received, and again we have provision for grants approved which were unpaid at the close of the year, and these amounted to \$5,941,472 at the close of this particular fiscal year.

We now come to page 13 where we deal with the principal of the fund. I think the basic wording of this paragraph is to point out that it is \$30,333,416, and that the basis on which it operates is under section 17 of the Canada Council Act which provides, or which originally provided, for this fund to be created with the amount of \$50,000,000, as its original stake from which grants could be made to universities and similar institutions of higher learning by way of capital assistance for building construction projects to promote the study of the arts, humanities and social sciences. The act, under the same section, gives authority for the manner in which the fund is to be invested. Changes in the fund are

shown right on the balance sheet in this case. You can appreciate that the number is not large in this case because there is not much movement.

On page 14 we deal with the question of the basis of allocation of accumulated interest and profits. There we have outlined the circumstances as they existed at the time these accounts were under examination, that is as of March 31, 1962. This is an important page for you to note, in order to provide yourselves with an understanding of this matter, because I assume you will be wishing to discuss it when we have the 1963 report before us.

You will also want to bear in mind the discussion we held last December when I spoke to the matter and when Mr. Faribault who is with us today also spoke to you. You will see here that on this particular question there were legal opinions received. Opinions were received from members of three legal firms, two of which supported the view that by using the restrictive formula comprised in section 17(2)(b) of the act, calculations for the determining of increases in provincial limits to cover interest earned and profits realized by the fund can only be made on the basis of population. The third opinion is that in allocating interest and profits the act does not preclude taking into account sums already paid to institutions, which is known as hotchpot, so that unspent balances and population would both be factors in the allocation.

I then go on to explain how in February 1962 the council decided to accept the trust fund or hotchpot approach that was recommended by the third legal opinion; however no action was taken as of March 31, 1962. And in view of that I do not have anything to say in my statutory report to the house.

You will notice the third paragraph beginning on page 14. The director was good enough to advise me in May which was about the time we finalized the March 31 accounts, that the principal, which you see, included \$12,394,333 in respect of interest earned and profits realized since the inception of the fund, and that no part of this sum had been allocated to or paid to the provinces and universities under the hotchpot distribution formula up to March 31, 1962, and consequently no acts were taken by the council prior to that date, which, in his opinion, would have the effect of committing the council to allocate the accumulated interest on profits in accordance with the hotchpot distribution formula. Accordingly, the matter was under discussion, but no action was taken. We shall be referring to the matter again when we move through the 1963 report. That concludes a rather quick run through of the 1962 report. Do you wish me to continue?

The CHAIRMAN: Might I suggest that if the committee agrees we might as well deal with the 1963 report with the same procedure, having in mind that it is a continuation, and that the committee has begun with your comments this morning. We might return after lunch and consider particular questions or comments which might arise. Members of the council would be free to comment as well. So if we could be given the 1963 report we then might adjourn to a suitable time this afternoon.

Mr. HENDERSON: If there are any questions on the 1962 report, do you wish me to deal with them now?

The CHAIRMAN: I think you should go through the 1963 report in the same way, after which I assume that questions will arise.

Mr. HENDERSON: The 1963 long form report reads as follows:

Ottawa, July 26, 1963.

The Chairman and Members,
The Canada Council,
Ottawa.

We have completed our examination of the accounts and financial transactions of the council for the financial year ended March 31, 1963 and have

reported thereon under date of May 28, 1963 to the Canada Council and to the Prime Minister of Canada in compliance with the requirements of section 22 of the Canada Council Act, 1957, c. 3. Copies of this report, which contained no qualification, were provided for distribution to the members of the Council.

Our examination was made in accordance with generally accepted auditing standards and included a general review of the accounting procedures and of the system of internal control, together with such tests of the accounting and related records as we considered appropriate in the circumstances.

A copy of this report is being sent to the Prime Minister of Canada for his information.

For convenient reference we are attaching, as exhibits, copies of the financial statements for the year ended March 31, 1963 and of the notes to the financial statements.

ENDOWMENT FUND

Income and Expenditure

The following is a summary of the income and expenditure and surplus for the year ended March 31, 1963, together with comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Balance of surplus, April 1, 1962	\$ 273,383	\$ 417,810
Add: Income for the year	3,011,103	2,955,665
	<hr/>	<hr/>
	3,284,486	3,373,475
Deduct: expenditure for the year ...	3,200,891	3,100,092
	<hr/>	<hr/>
Balance of surplus, March 31, 1963 ..	83,595	273,383

The balance of surplus which remains unexpended in the endowment fund at the end of a financial year is available for expenditure in the succeeding year or years.

Details of income for the year ended March 31, 1963, together with comparable figures for the preceding year, are as follows:

	Year ended March 31		Increase on
	1963	1962	Decrease
			(—)
Interest on bonds and debentures	\$1,849,632	\$1,828,451	\$ 21,181
Interest on mortgages	853,360	845,053	8,307
Dividends on common stocks	302,178	271,145	31,033
Discount on treasury bills	5,933	11,016	—5,083
	<hr/>	<hr/>	<hr/>
	3,011,103	2,955,665	55,438
	<hr/>	<hr/>	<hr/>
Yield on book value of portfolio at end of year	5.50%	5.42%	
Return for year, on original fund	6.02%	5.91%	

Section 16 of the Canada Council Act provides that any expenditure made for the purposes of the act (other than capital assistance grants to institutions of higher learning) may be paid out of the income earned by endowment fund

investments. Expenditures for the year under review compared with corresponding amounts in the preceding year as follows:

	Year ended March 31		Increase or
	1963	1962	Decrease (—)
Grants and awards authorized ..\$	2,721,489	\$ 2,551,150	\$ 170,339
Canadian National Commission for UNESCO (other than indi- rect administrative expenses) ..	77,808	56,490	21,318
Canada Council train		25,298	—25,298
Administrative and other ex- penses	401,594	467,154	—65,560
	<u>3,200,891</u>	<u>3,100,092</u>	<u>100,799</u>

A listing of the grants and awards authorized in the various categories is given in the annual report of the council.

Order in council P.C. 1957-831 of June 14, 1957, issued under authority of section 8(2) of the Canada Council Act, requires the council to provide the secretariat for the Canadian National Commission for UNESCO. The salary costs involved for this secretariat were included in prior years in the salaries forming part of "administrative and other expenses". For the year under review these costs, amounting to \$22,952, were included in the expenses incurred by the council on behalf of the commission, in order to show more accurately the direct costs of operating the commission.

The expenses in the various administrative and other expense categories during the year under review are shown in comparative form in the statement of income and expenditure and surplus (Exhibit III). As mentioned in note 3 to the financial statements, these include expenses relating to the administration of the university capital grants fund and indirect expenses relating to the operation of the Canadian National Commission for UNESCO. The following comments are made regarding increases or decreases in several of the expense categories during the year under review:

Salaries decreased by \$42,952 to \$170,837 for the year. A significant portion of this decrease was due to the transfer of the \$22,952 salary cost to the commission for UNESCO, referred to above; while there was no comparable charge during the year for the \$13,750 salary paid to the former Treasurer in the year ended March 31, 1962.

Rent increased by \$4,106 to \$28,736 for the year, the increase being accounted for as follows:

Additional rent paid for air conditioning offices, \$3,024, and extra office space, \$50		\$ 3,074
Adjustment to preceding year's figures for—		
Annual rental charge (11 months only charged in 1961-62 ac- counts)	\$ 1,917	
Increased rent	237	2,154
		<u>5,228</u>
Less reduction in charge for repairs, \$1,067, and taxes, \$55		1,122
		<u>4,106</u>

Council meetings were held on five occasions during the year compared with six in the previous year, a result being that the related expenses decreased by \$7,734, to \$24,838 for the year under review.

Printing and duplicating costs for the year ended March 31, 1963 amounted to \$40,346 compared with \$33,708 for the preceding year. The increase of \$6,638 was due to the increased cost of printing the council's annual report and to an expenditure of \$5,744 for the booklet "Private Benefactors and the Canada Council", partially offset by reductions in other printing costs during the year.

Advisory service fees decreased by \$7,450 to \$41,800 for the year under review. Expenditure for the year ended March 31, 1962 included payments of \$8,000 to the humanities research council of Canada, \$8,000 to the social science research council of Canada, and \$3,000 to The Canada foundation. These payments, which total \$19,000, related to the year 1960-61 and were additional to the payments made to these organizations for the year 1961-62. The additional payments, partially offset by a full year's charge of \$15,000 in 1962-63 for the services of Fullerton, Mackenzie and Associates Ltd., compared with \$3,750 in the preceding year, account for the greater part of the decrease.

Property expenses of \$3,912 were incurred for the first time during the year under review and consisted mainly of expenses (which will be of a recurring nature) for the maintenance and upkeep of Stanley House, New Richmond, P.Q., which was donated to the council in the previous year.

Balance Sheet items

Cash—\$234,837

This item is made up as follows:

Bank balances	\$ 234,087
Deposit with Trans-Canada Air Lines	425
Travel advances	325
	<hr/>
	234,837
	<hr/>

The bank balances were confirmed directly to us by the depositaries and reconciled with the council's records. The deposit with Trans-Canada Air Lines for air travel credit facilities was confirmed directly to us. The travel advances were verified by reference to the subsequent claims submitted by the holders of the advances and all were accounted for.

Amounts receivable for securities sold but not delivered—\$703,727

This represents the sales value of \$875,000 government of Canada 3½% bonds, due October 1, 1979 held by the council on March 31, 1963, which were the subject of sale agreements providing for delivery on April 1st. The amount was verified by reference to the relative sales contracts.

Investments—\$54,739,224

The Council's investment portfolio is managed by the firm of Fullerton, Mackenzie and Associates Ltd. for a fee of \$15,000 per annum plus telephone costs not to exceed \$5,000 per annum.

The classes of securities that may be acquired as investments of the endowment fund, and the limits of holdings of any class and of any particular securities, have been approved by the council and are subject to change from time to time by resolution of the council. Within this general framework, securities are acquired, managed and disposed of with the advice of the investment committee, as provided by section 18 of the Canada Council Act.

The investment portfolio is planned to provide the maximum return consistent with the necessity of maintaining the principal of the fund intact. In

furtherance of this objective, the council is active in the purchase and sale of endowment fund investments in order to enhance yield and or realize attractive capital gains. The extent of transactions entered into and completed during the 1962-63 financial year is shown in the following summary:

	Purchases	Sales
Treasury bills	\$ 2,864,391	\$ 3,312,248
Bonds and debentures:		
Canada and Canada guaranteed .	46,243,362	50,213,279
provincial and provincial		
guaranteed	15,633,304	13,854,856
municipal	5,438,786	3,337,965
corporate (including short-term		
notes)	10,668,673	10,060,418
	<u>77,984,125</u>	<u>77,466,518</u>
Common stocks and convertible		
debentures	865,211	142,389
Mortgages:		
Principal repayments		602,711
	<u>81,713,727</u>	<u>81,523,866</u>

The cumulative net profit realized on the disposal of securities since the council was established is carried as a reserve against possible future losses, as mentioned later in this report.

An analysis of the endowment fund investment portfolio as at March 31, 1963 follows:

Bonds and debentures:		
Canada and Canada guaranteed ..	\$ 9,680,090	
provincial and provincial		
guaranteed	7,145,539	
municipal	5,323,944	
corporate (including short-		
term notes)	10,426,751	\$32,576,324
Common stocks and convertible		
debentures	7,786,117	
Stock warrants	4,000	7,790,117
		<u>40,366,441</u>
Mortgages:		
Insured under N.H.A.	13,637,041	
Other	735,742	14,372,783
		<u>54,739,224</u>

Bonds and debentures are valued at amortized cost, mortgages at amortized cost less principal repayments, and common stock and stock warrants at cost. The year-end market value of the investments, excluding mortgages, was \$42,963,460, being \$2,597,019 in excess of the book value of \$40,366,441.

The investment portfolio also includes 3,500 "bonus" shares in Chinook Shopping Centre Limited, the same figure as reported in the preceding year; and 6,000 shares in Acton Limestone Quarries Ltd. which were acquired during the year under review through the purchase of \$150,000 6½% Series "A" bonds (maturing May 15, 1982) issued by this company. No book value has been placed on these shares as they were received by the council without cost.

The securities are held in safekeeping and were verified by certificates furnished directly to us by the depositaries.

Property, including furnishings and effects, donated to Council, at nominal value—\$1

This item, nominally valued at \$1 for accounting control purposes, represents Stanley House, New Richmond, P.Q., acquired by the Council by gift in November 1961 in accordance with the provisions of section 20 of the Canada Council Act, and was commented upon in last year's report. During the year under review the legal formalities necessary for the transfer of the property to the council were completed.

Accounts payable—\$62,957

This item, verified by reference to appropriate supporting documents, consists of the following:

Unexpended donations	\$18,159
Canadian National Commission for UNESCO	21,262
Securities registration fees and service charges	17,645
Miscellaneous	5,891
	<u>\$62,957</u>

Unexpended donations are commented upon in the section of this report relating to the balance sheet for special funds.

Accounts payable for securities purchased but not received—\$1,205,005

This relates to orders placed with brokers prior to March 31, 1963 for the purchase of securities which were not delivered and paid for until April, 1963. The amount was verified by reference to the relative purchase contracts.

Provision for grants and awards approved—\$1,664,160

This represents awards approved by the council to March 31, 1963 but not yet paid. An amount of \$170,000 for estimated travel and university fees is included in the balance.

The following is a summary of transactions for the year ended March 31, 1963 together with comparable figures for the preceding year:

	Year ended March 31 1963	1962
Balance unpaid as at April 1, 1962 ...	\$1,659,339	\$1,898,085
Add: Net authorizations during the year	2,721,489	2,576,448
	<u>4,380,828</u>	<u>4,474,533</u>
Less: Paid during the year	2,716,668	2,815,194
Balance unpaid as at March 31, 1963 ..	<u>\$1,664,160</u>	<u>\$1,659,339</u>

The awards outstanding for more than twelve months were reviewed with the council's officers who informed us that as far as could be presently ascertained they would eventually be paid.

Reserve arising from net profit on disposal of securities—\$3,270,840

During the year under review the reserve increased by \$115,607 to \$3,270,840 at March 31, 1963. The increase is the net result of profits of \$585,148 realized on the disposal of securities, offset in part by \$469,541 in losses incurred.

The reserve is carried to provide for possible future losses incurred on the disposal of endowment fund investments, and is not available for expenditure.

University Capital Grants Fund

Section 17 of the Canada Council Act provided for the establishment of a university capital grants fund to be credited with an amount of \$50 million, from which grants may be made to universities and similar institutions of higher learning by way of capital assistance in respect of building construction projects to promote the study of the arts, humanities and social sciences. Authority to invest money standing to the credit of the fund, within prescribed limits, is given by the same section.

The balance sheet items are commented upon as follows:

Cash—\$60,391

This consists of a bank balance of \$60,391 which was confirmed directly to us by the depositary and reconciled with the council's records.

Amounts receivable for securities sold but not delivered—\$2,100,175

This represents the sales value of securities held by the council at March 31, 1963 which were the subject of sales agreements providing for delivery in April. The amount was verified by reference to the supporting sales contracts.

Investments—\$33,883,354

Section 17(3) of the Canada Council Act requires that investments in connection with the university capital grants fund be restricted to bonds or other securities of or guaranteed by the government of Canada.

In order to make funds available for the payment of approved grants to universities during the year under review, it was necessary for the council to dispose of certain investments, with the result that the year-end balance shows a reduction of \$2,123,691 from the principal amount of \$36,007,045 at March 31, 1962.

In addition to the liquidation sales, numerous purchases and sales of securities were made for the purpose of enhancing the yield and/or realizing capital gains, and the following is a summary of the trading activities for the year:

	Purchases	Sales
Treasury bills	\$ 24,077,032	\$ 30,727,523
Canada and Canada guaran- teed bonds	111,757,511	107,347,860
	<hr/> 135,834,543	<hr/> 138,075,383

At the year-end the investment portfolio consisted of the following securities:

Treasury bills	\$ 1,066,679
Canada and Canada guaranteed bonds	32,816,675
	<u>33,883,354</u>

The securities were valued at amortized cost. The market value of the government of Canada, and Canada guaranteed bonds at the year-end was \$32,887,700, being \$71,025 in excess of the book value. The securities are held in safekeeping and were confirmed directly to us by the depository.

Amounts payable for securities purchased but not received—\$1,969,120

This represents commitments to purchase \$1,985,000 Government of Canada 3½% bonds, due February 1, 1964, entered into prior to March 31, 1963 and completed early in April, 1963. It was verified by reference to the relevant purchase contracts.

Provision for grants approved—\$8,367,516

This item represents the unpaid balances of grants approved in 1962-63 and prior years as follows:

1959-60	\$ 234,625
1960-61	569,990
1961-62	2,541,815
1962-63	5,021,086
	<u>8,367,516</u>

The above balances were reviewed with your officers who informed us that the outstanding grants will be paid upon satisfactory completion of the work for which the grants were made.

The following is a summary of the transactions in this account since the inception of the Fund:

March 28, 1957 to	Authorized	Paid	Unpaid Balance
March 31, 1958	\$ 4,084,300	\$ 1,340,400	\$ 2,743,900
1958-59	8,732,264	3,542,925	7,933,239
1959-60	9,344,062	6,960,226	10,317,075
1960-61	3,367,651	8,038,391	5,646,335
1961-62	6,532,639	6,237,502	5,941,472
1962-63	6,275,542	3,849,498	8,367,516
	<u>38,336,458</u>	<u>29,968,942</u>	

Principal of Fund—\$25,943,767

The balance sheet (Exhibit I) gives a summary of the transactions in the fund for the year under review. The principal amount of \$25,943,767 remaining at March 31, 1963 includes \$14,280,225 of interest earned on investments and net profits on disposal of securities since the inception of the fund. In our

last year's report reference was made to the fact that three legal opinions had been obtained by the council on the question of the basis of allocation of the accumulated interest and profits between the various provinces. Two of these opinions support the view that, by reason of the restrictive formula in section 17(2)(b) of the act, calculations for the purpose of determining increases in provincial limits to cover interest earned and profits realized by the fund can only be made on the basis of population. The third opinion is that in allocating interest and profits the act does not preclude taking into account sums already paid to institutions under the "hotchpot" formula, so that unspent balances would be a factor in the allocation, as well as population.

At the council's August, 1962 meeting a special committee was formed to prepare a report on the question of the allocation of interest and profits accumulated in the university capital grants fund. The resulting report, which was considered by the council at its February, 1963 meeting, took into consideration the four possible alternative allocations between the provinces, arising from:

- (a) the alternative use of the provincial population basis or the hotchpot formula; and
- (b) the alternative use of the 1956 census or the 1962 census;

and the council agreed as follows:

- (a) the interest and profits be distributed to institutions on the eligible list up to the minimum amount for each province as derived from the four alternative calculations; and
- (b) there be a \$5,000 floor on the granting of a share in the interest and profits to any institution.

"Consideration of the final disposition of interest and profits was deferred until a later meeting."

Resulting from this decision, eligible institutions were invited to apply for their share of interest and profits based on the lowest alternative amount available to them. There were, however, no allocations up to March 31, 1963.

Special Funds

Under section 20 of the Canada Council Act, the council may acquire money, securities or other property by way of gift, bequest or otherwise, and may expend, administer or dispose of such donations subject to the terms upon which they are made available to the council.

In February, 1963 the council accepted an offer of a gift of approximately \$4,250,000 from an anonymous donor. Of this amount \$1,078,737 was received by March 31, 1963 and payment of the balance was to be extended over several years.

Previous gifts to the council have been comparatively small in amount and unexpended balances were accounted for in the balance sheet for the endowment fund. Because of the size and terms of the present gift the council approved the presentation of a separate balance sheet, designated "Special Funds", accounting for moneys or property received pursuant to section 20 of the act.

The following comments are made in respect of this balance sheet (Exhibit II):

Sundry unexpended donations—\$18,159

This item represents undisbursed balances of donations held in the endowment fund, on the balance sheet of which there is a corresponding liability of \$18,159 included in the accounts payable item.

The sundry donations received by the council may be either conditional as to the manner in which they are disbursed, or unconditional. The accounting practice is to treat the conditional donations as liabilities, until disbursed for the specific purposes designated. Unconditional donations may be taken into income, whereupon they are available for expenditure under section 16 of the act.

A summary of the transactions in the sundry donations account is given on the liabilities side of the special funds balance sheet (Exhibit II). The total sundry donations received by the council to March 31, 1963 was \$83,045 of which \$38,020 was received during the year. All disbursements from these sundry donations have been made in accordance with whatever conditions were prescribed by the donors.

Special scholarship fund—\$1,081,376

This item reflects the amount of \$1,078,707 received from an anonymous donor, as mentioned above, together with interest of \$2,639 earned on funds invested to March 31, 1963. As mentioned in Note 1 to the financial statements, the gift is to be used to establish a special scholarship fund, the income from which is to provide fellowship and scholarship grants for Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions, or other equivalent or similar institutions in Canada.

When the cheque for the first instalment of the gift \$1,078,737, was received by the council it was deposited to the credit of the bank account through which the council ordinarily makes its endowment fund investments. Special fund investments were purchased at a cost of \$1,077,658 out of this bank account with the result that it included \$1,079 special fund moneys at March 31, 1963. This amount was included in the amount confirmed directly to us by the depositary concerned, and was transferred to a separate special fund bank account in April, 1963.

The investments for the Special Fund were confirmed directly to us by the depositary.

Full opportunity was given to examine all vouchers, records and accounts required for the purposes of the examination. The co-operation extended to the audit office staff by the director and other officers of the Council is acknowledged with appreciation.

We shall be glad to provide you with any additional information you may wish in connection with our examination.

Ian Stevenson
for Auditor General of Canada.

University Capital Grants Fund

Cash.....	\$ 60,391	\$ 52,149	Amounts payable for securities purchased but not received.....	\$ 1,969,120	\$ 149,054
Amounts receivable for securities sold but not delivered.....	2,100,175	—	Provision for grants approved.....	8,367,516	5,941,472
Interest accrued on investments.....	236,483	364,748	Principal of Fund:		
Investments at amortized cost:			Balance as at April 1, 1962.....	\$30,333,416	34,341,991
Treasury Bills of Canada.....	\$ 1,066,679	7,686,495	Add:		
Bonds of Canada (market value			Interest earned on investments.....	1,520,469	1,620,476
1963, \$32,887,700;			Net profit on disposal of securities.....	365,424	903,588
1962, \$28,444,275).....	32,816,675	28,320,550		32,219,309	36,866,055
	33,883,354	36,007,045	Less: Authorized grants under section 9 of the Act.....	6,275,542	6,532,639
	<u>36,280,403</u>	<u>36,423,942</u>		25,943,767	30,333,416
				<u>36,280,403</u>	<u>36,423,942</u>

The accompanying notes are an integral part of this statement and should be read in conjunction therewith.

Certified correct:

A. W. TRUUMAN,
Director

Approved:

D. B. WELDON,
Chairman

I have examined the above Balance Sheet and the related Statement of Income and Expenditure and Surplus and have reported thereon under date of May 28, 1963, to the Canada Council and the Prime Minister of Canada as required by section 22 of the Canada Council Act.

A. M. HENDERSON,
Auditor General of Canada

Exhibit III

The Canada Council

Endowment Fund

Statement of Income and Expenditure and Surplus
for the year ended March 31, 1963

(with comparative figures for the year ended March 31, 1962)

	1963	1962
Balance of Surplus as at April 1, 1962	\$ 273,383	\$ 417,810
Income—Interest and dividends earned	3,011,103	2,955,665
	<hr/> 3,284,486	<hr/> 3,373,475
Expenditure:		
Authorized grants and awards	\$ 2,721,489	2,551,150
Special project—The Canada Council train	—	25,298
Canadian National Commission for UNESCO (other than indirect expenses)—Note 3	77,808	56,490
Administrative and other expenses—Note 3		
Salaries	\$ 170,837	213,789
Employees' welfare benefits	12,763	14,736
Rent	28,736	24,630
Council meetings	24,838	32,572
Printing and duplicating	40,346	33,708
Office and sundry expenses	17,356	24,725
Consultants' fees and expenses	879	2,668
Security safekeeping and registration charges	28,671	32,669
Travel	9,262	10,048
Members' honoraria ..	8,500	9,550
Telephone	10,429	9,051
Advisory service fees	41,800	49,250
Property expenses ..	3,912	—
Entertainment	1,597	1,360
Legal and other fees	725	3,971
Office furniture and equipment	943	4,427
	<hr/> \$ 401,594	<hr/> 467,154
	<hr/> \$ 3,200,891	<hr/> \$ 3,100,092
Surplus at March 31, 1963 available for expenditure under section 16 of the Canada Council Act	\$ 83,595	\$ 273,383

The accompanying notes are an integral part of this statement and should be read in conjunction therewith.

The Canada Council
Notes to the financial statements
March 31, 1963

Note 1. *Special fund*

Section 20 of the Canada Council Act reads as follows:

The council may acquire money, securities or other property by gift, bequest or otherwise and may, notwithstanding anything in this act, expend, administer or dispose of any such money, securities or other property not forming part of the endowment fund or the university capital grants fund, subject to the terms, if any, upon which such money, securities or other property was given, bequeathed or otherwise made available to the council.

In February 1963 and pursuant to this section, the council accepted a gift of approximately \$4,250,000 from an anonymous donor, receivable from time to time over the next several years, of which \$1,078,737 had been received by March 31, 1963. The gift is to be used to establish a special scholarship fund, the income from which is to provide fellowship and scholarship grants for Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research, or scientific institutions, or other equivalent or similar institutions in Canada.

The council has from time to time in previous years received sundry donations pursuant to section 20 of the act, which, because of the small amounts involved, have been included as part of, and accounted for, within the endowment fund established by section 14 of the act. The terms of the present anonymous gift preclude this method of treatment and by resolution of the council a separate balance sheet, designated as "special funds", has been prepared to account for all monies or property received by the council pursuant to section 20.

Note 2. *Endowment Fund*

The council was committed to purchase interests in various mortgage loans on construction projects in Toronto and Montreal at a total cost of \$1,350,000.

Note 3. *Administrative and Other Expenses*

The expenses shown in the statement of income and expense include expenses relating to the administration of the university capital grants fund and to the operation of the Canadian National Commission for UNESCO.

In previous years the salaries of staff engaged on UNESCO were included in salaries under "Administrative and other expenses". For the year under review these direct costs have been included in the expenses of the Canadian National Commission for UNESCO.

If you will now be good enough to turn to the balance sheet as of March 31, 1963, you will see that it includes two sections, one for the endowment fund, and another for the university capital grants fund. I would direct your attention to exhibit II which is behind this balance sheet because in that part we have now moved into a third balance sheet, items dealing with the special funds. It is essential in an operation of this type to keep the various parts separated. Council took the view, which we think is worth while that we should endeavour to set them out even at the risk of its being a bit confusing.

This represents donations. You will see that they are really in business and that this kind of thing is alive now.

We shall be dealing accordingly with a third balance sheet to this particular report.

The opening commentary in this report, which was written last July, is similar to the one I just covered, and again we are dealing first with the endowment fund income and expenditures. You may remember there was a \$273,000 carry-over in this income and expenditure the previous year. You will see how it wound up with only \$83,000 carried over at the end of 1963.

Again you will observe details of the income expenditure, together with comparable figures for the preceding year. You will notice the yield on book value of that portfolio at the end of the year continued to go up to 5½ per cent compared to 5.42 per cent which is the figure I gave you before. I think the figure was 5.47 in 1961. The performance is generally regarded here as being good. Of course, the return on the original fund is now in 1963 over 6 per cent.

The expenditures that were made out of income from the endowment fund are again shown on page 3, and you will see they went up by \$100,000 to a total of \$3,200,000 the largest increase by far being in grants and awards authorized.

In fact there had been a reduction in administrative expenses of \$65,000.

There is reference made here to a 1957 order in council explaining the situation surrounding the secretariat for the Canadian National Commission for UNESCO which operates within the establishment of the Canada Council and whose expenses are included in the expenses of the Canada Council. In order to show more accurately the direct operating costs of the commission for this year, salary costs have been included.

Expenses of operation, administrative and other expense categories are dealt with on page 4. The comments which are inserted here will be of interest to note. Salaries decreased but again the significant portion of this decrease was due to the transfer of the \$22,900 salary cost to the commission of UNESCO which I just mentioned. There has also been a change in the treasurer relationship accounting for another part of this change.

Rent on the other hand increased by \$4,000 to \$28,000 for the year for reasons which are then explained.

Council meetings were held on five occasions during this year, compared to six, which explains that item.

Printing and duplicating costs are referred to, and advisory fee services dropped. Reference is made to the type of advisory fees, in respect of which you may care to mark any questions you have.

There were additional payments during that year. The additional payments were partially offset here by a full years charge for the services of Fullerton, McKenzie and Associates Limited who, as I explained, managed the investment portfolio. There is reference to certain particular expenses covering the maintenance and upkeep of Stanley House, New Richmond, Quebec.

Turning to the balance sheet items, there is reference again to cash and the accounts receivable for securities sold but not delivered. That naturally as you appreciate, would have its place at the close of the accounting period on a balance sheet of this nature. The investments and amortized cost of these at March 31, 1963, as you see on page 6, stood at \$54,739,000, and as I mentioned earlier the portfolio was managed by Fullerton, McKenzie and Associates.

Again you might be reminded that the class of securities that may be acquired as investments of the endowment fund, and the limits of holdings of any class and of any particular securities, have been approved by the council and are subject to change from time to time by resolution of the council. The council has a very active investment committee which supervises all of the changes for the two large portfolios. I think perhaps Mr. Fullerton will have something to tell you about this afterwards. This investment committee is provided for under section 18 of the act.

At the top of page 7 you will see a reference to the purchases and sales. That is to say the extent to which transactions were entered into and completed during the fiscal year under review, again for the purposes of enhancing the yield or picking up capital gains.

At the bottom of page 7 there is an analysis of the endowment fund investment portfolio, similar to the one you saw before. Again you will observe that the large bulk of this is in bonds and debentures, common stocks and mortgages in much the same ratio to that you noted in 1962. The year end market value for these investments is \$42,900,000, and I am excluding mortgages from this figure, of course, about \$2,600,000 in excess of the book value, which is a healthy position.

Again we have the little dollar item which represents the new Stanley House, New Richmond, Quebec.

On page 9 we list the accounts payable and these are the normal kind of outstanding bills one would expect to find in an operation of this nature.

There is a figure of \$1,200,000 covering what was taken for securities purchased but which had not been received. This is a cut off at the close of the fiscal year.

Again we come back to the provision for grants and awards approved, which, as I mentioned earlier, was \$1,664,000. In other words, this is their liability for grants approved but not paid at the close of the year.

On page 11 there is reference to the reserve arising from net profit on disposal of securities. This is a reserve that is guaranteed under the Canada Council Act to provide for possible future losses incurred on the disposal of endowment fund investment and is not available for spending in respect of current expenditures. This was the item I mentioned to you in 1962 which had arisen from straight profits since the inception of the council's management of this fund.

We now turn to the university capital grants fund at the bottom of page 11, and again we return to the basic \$50 million from which grants were to be made to universities and similar institutions of higher learning by way of capital assistance in respect of building construction projects to permit the study of the arts, humanities and social sciences.

I then go on at page 11 to comment on balance sheet items, most of which you will recognize from the previous one. I think the most important one on page 11, and at the top of page 12, is the position of the investment portfolio which again you will recall is maintained in this instance solely in treasury bills, Canada and Canada guaranteed bonds under the direction of the Canada Council Act. This portfolio was \$71,000 in excess of book value at March 31, 1963.

There is provision for grants approved, which is shown at the bottom of page 12, representing the unpaid balances for grants approved for 1962-63 and prior years, which of course had to be carried as a liability on the university capital grants fund balance sheet and which appears separately. Again, there is a summary of the transactions in this account since the inception of the fund.

We now come down to the principal of the fund which, as you will see, had decreased in the year—as it must because of the manner in which it has to be expended under the act—from \$30,300,000 to \$25,900,000. The changes in it are shown right on the balance sheet on exhibit one, and you will see that whereas it started the year at \$30,300,000 it earned interest of \$1,500,000, made a profit of \$903,000 on disposal of securities and made authorized grants under section 9 of the act to expend \$6,200,000, leaving a figure of \$25,900,000 on hand.

At the bottom of page 13 I refer again to the previous matter about the three legal opinions having to do with investments and profits which, as you will see, at March 31, 1963, had increased from the earlier figure to the figure of \$14,280,225. It has become quite a formidable figure. That is the interest

earned on investments and net profits made on disposal of securities since the inception of the fund.

I make reference to the previous year's report and the fact that three legal opinions were obtained by the council on the question of the basis of allocation of the accumulated interest and profits between the various provinces. I repeat that two of the these opinions supported the view that, by reason of the restricted formula comprised in section 17(2)(b) of the act, calculations for the purpose of determining increases in provincial limits to cover interest earned and profits realized by the fund can only be made on the basis of population. The third opinion was that in allocating interest and profits, the act does not preclude taking into account funds already paid to institutions, so that unspent balances would be a factor in the allocation as well as population.

Once again, at the council's August, 1962, meeting, a special committee was formed to prepare a report on the question of allocation of the accumulated interest and profits in this fund, and the council considered the resulting report in February, 1963, when it took into account the four possible alternative allocations between the provinces, and these are listed on page 14. We will probably be returning to them, Mr. Chairman, when we discuss this particular matter.

You will note at the bottom of page 14 that again no allocations were made up to March 31, 1963, and accordingly the matter still remained, from my point of view as auditor, in the discussion stage with no commitments made or obligations undertaken.

I would remind you at this point that the position I have taken has been that I could not agree that the interest and profits which had accumulated here should be distributed under this hotchpot formula, and I will go into that with you later when we discuss it. However, the council had made no commitments and, accordingly, the money continued to be at interest and is reflected right here on the statements under the principal of the fund.

On page 15 we come to special funds, and this outlines how, under section 20 of the act, the council can acquire moneys, securities and other property by way of gift or otherwise and may expend, administer or dispose of such donations subject to the terms on which they are made available to the council. It is as a result of the introduction of these donations during this fiscal year that as I mentioned earlier, the council prepared a separate balance sheet, which is exhibit II. In the note which is exhibit IV there is explained the whole of the circumstances surrounding the working of this special fund. I do not know that it is necessary for me to describe it in detail to you, but suffice it to say that in February, 1963, it accepted an offer of a gift of approximately \$4½ million from an anonymous donor, which is I believe being paid over a period of time. During the fiscal year at which we are looking, over \$1 million was received and the balance will be coming in, in future years. There were sundry unexpended donations of \$18,159 which were transferred from the main section of its accounts over to the special fund balance sheet at the time it was set up, and quite properly so.

On page 16 you will notice under "Special scholarship fund" the manner in which this donation is to be administered. The gift carried with it certain requirements to which the council agreed, and accordingly they are now set to carry out the terms of the gift.

I believe that—perhaps rather hurriedly, Mr. Chairman—outlines the whole story here. I am sure members will have marked their copies with any questions they wish to ask.

The CHAIRMAN: Thank you, Mr. Henderson.

Gentlemen, I think this is a good time to adjourn. Before we do so, may I express the hope that I will have your, may I say, unspoken undertaking to

be back at 3.30. I know Mr. Martineau, Miss Breen and the members of the council have found it difficult to integrate their presence here today, and merely because the House of Commons has rather unusual holiday habits I hope will not prevent our coming back here to meet them so we can complete the business of the day and have the benefit of the comments from them and from the members of the committee.

Mr. MARTINEAU: Mr. Chairman, this morning when I was presenting our witnesses, Dr. Mackenzie was humbly hiding behind Mr. Wahn so I missed him. I want you to know he is here.

The CHAIRMAN: Thank you, Mr. Martineau. We will adjourn until 3.30 this afternoon.

AFTERNOON SITTING

TUESDAY, July 28, 1964.

(Text)

The CHAIRMAN: Gentlemen, I see a quorum. May I thank you for your prompt attendance. I know how difficult it was to tear yourselves away from the proceedings in the house this afternoon.

Now, there are two or three formalities which we have to deal with first.

The long form reports in connection with the Canada Council, which were tabled before, I hope, with your consent, will be printed as part of today's proceedings. It is being arranged with the reporting staff that they be printed in a place where they are in immediate relationship to the statements made by Mr. Henderson. Do I have your approval for that?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, in reverting to another matter I would ask your approval to have printed as an appendix to today's proceedings a letter which I have received from the Department of National Defence containing information requested by Mr. Winch on July 14. May this be tabled and printed as an appendix to the proceedings?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: At this time I will call upon Mr. Tardif and then later Mr. Ryan has some corrections to make.

Mr. Tardif, I believe you have some report to make in connection with the subcommittee of which you are the chairman, which is outside the matters we have for discussion this afternoon.

Mr. TARDIF: Yes. Actually, I do not know whether it is a motion I want to make or permission I want to seek to have a section of the report, that was accepted in the house and passed yesterday without any visible opposition implemented. I have reference at this time to getting in touch with Mr. Balls in connection with getting an auditor to do certain work in respect of the reference given by the committee concerning the examination we are going to make of the War Assets Corporation. This was agreed to by Mr. Balls and, in a conversation which took place between Mr. Balls, Mr. Henderson and myself, it was decided that the broadcasting corporation had a very efficient man who could be doing this work, but the only condition they put—and I do not know whether to take this seriously at this time—is that his salary be paid by the committee that is going to employ him for that period of time. However, I suppose that could be covered by a bookkeeping entry.

The CHAIRMAN: That is an indication of the salutary effect this committee had on the C.B.C.

Mr. TARDIF: I did not know that the word sanitary was the one that applied to it.

The CHAIRMAN: I said "salutary", not "sanitary".

Mr. TARDIF: It is the intention of the subcommittee to call them within a day or two and then make a report to the general committee.

The CHAIRMAN: I believe Mr. Ryan had a correction to make in connection with the proceedings.

Mr. RYAN: Yes, Mr. Chairman. I have a correction to make in respect of Minutes of Proceedings and Evidence, number 14, at page 603. I am referring to my second question on page 603. The word "unification" in the first line should read "uniformity". And, in the last two lines the words in quotation, "our man is not at fault" should read, "our man is at fault".

The CHAIRMAN: Now, turning back to the business at hand, I hope the matter of the report of the Canada Council and the financial statement will be thrown wide open. However, before we do this, the chairman, Mr. Martineau, has pointed out to me there is one particular aspect which has been the subject of discussion by the committee before which will be dealt with in particular by Mr. Faribault, who was here last year. Mr. Faribault has to be back in Montreal this evening and I hope, with your permission, we could direct our attention to that particular issue first before we carry on with a general examination. Of course, that has to do with the question of the distribution of the profits from the investments, which was the subject of a comment by Mr. Henderson. I hope it will be in order for Mr. Faribault to deal with that first. Then, having done that the meeting will be thrown wide open.

Before calling on Mr. Faribault I would like to again introduce you to Mr. Martineau, a very distinguished Canadian, who is the chairman of the council.

I will ask Mr. Martineau to direct this particular matter either through his own statement or call upon Mr. Faribault when he requires him.

Mr. MARTINEAU: Before I do that, Mr. Chairman, may I introduce another member of the council who just arrived this afternoon, Mr. Trevor Moore, of Toronto.

This matter has been discussed before, particularly last December, when this committee met.

I do not know whether or not any members want to put questions in respect of this matter. However, if they wish to do so they can be directed to Mr. Faribault who, I think, can discuss it better than anyone else on our side.

The CHAIRMAN: On that basis, are there any questions to be directed to Mr. Faribault in respect of the distribution of profits?

Mr. MARTINEAU: This is in respect of the allocation of interest and profits accumulated in the university capital grants fund, at page 14.

The CHAIRMAN: Yes, at page 14 of the 1963 report.

Mr. PIGEON: And this is a subject upon which Mr. Henderson commented.

The CHAIRMAN: Yes.

Mr. PIGEON: I would like to put the next question to Mr. Faribault.

(Translation)

Mr. Chairman, I am going to question M. Faribault in French. Mr. Faribault, could I ask you a few questions about the differences of opinion that exist between the Canada Council and Mr. Henderson? Have the Council consulted the former government and the present government about this situation?

Mr. FARIBAULT: Yes, we have asked the Right Honourable Mr. Diefenbaker and the Right Honorable Mr. Pearson what they thought about it. I do not know whether you want me to go into all the details.

Mr. PIGEON: I would like to know what the results of the interviews were in both cases?

Mr. FARIBAULT: In both cases we were told that the Canada Council was an independent agency, that it is not a Crown Corporation, and that it was therefore not appropriate for the government or any government official or legal advisers to provide the Council with an interpretation as the Council Members are perfectly able to assess the situation by themselves and to take whatever measures they consider appropriate. That is what we did.

(Text)

Mr. PIGEON: I would like to put this question to Mr. Henderson. What reasons can you give this committee for objecting when the two prime ministers of this country support Canada Council. I am confused in connection with this subject.

Mr. HENDERSON: I am not clear as to the manner in which the prime ministers have supported the council, Mr. Pigeon.

(Translation)

Mr. PIGEON: You are not sure whether the present prime minister and the former prime minister support the Canada Council in this matter?

(Text)

Mr. HENDERSON: I do not believe so, sir. I believe they sought to discuss the matter with the present Prime Minister and the previous prime minister, but I am not aware that either of them took a positive stand on the council's intended action in this matter.

(Translation)

Mr. PIGEON: Yes, but Mr. Faribault has just mentioned the consultations that took place with the former prime minister and the present prime minister. If both prime ministers agree with the Council's decision in this regard I cannot understand how you, the Auditor General of Canada, can be opposed to the Canada Council when they have the support, in other words, of the former prime minister and the present prime minister. That is what I would like you to explain to me.

(Text)

The CHAIRMAN: Would you like to make a comment, Mr. Faribault, at this stage on what Mr. Pigeon said?

Mr. FARIBAULT: Yes. As a matter of fact, both prime ministers said very pointedly that it was not proper for them to interfere with the activities of the council and to give it their interpretation or direction. They intimated that it was quite proper for the council to decide by itself. They did not say that they approved or disapproved of the stand taken by the council because actually the advice sought was sought before the final decision was taken by the council.

I might elaborate on that by saying that in the view of this council this fund, which was a \$50 million fund, from our reading of the act, was a one-shot proposition. We were in doubt whether the government of the day would be interested in increasing the amount or not by giving additional amounts, but we were quite sure, before we put the question, that if the government was not, then there was just one avenue open to us, which was to take the decision which we have taken. Of course we would not presume to put it in that way to the Prime Minister. We just said we had a difficulty and we asked whether the Prime Minister would consider giving us an interpretation. He said, in effect, "I don't think it is proper for the Prime Minister: I don't think it is proper for any officer of the crown, including the deputy attorney general". This was the limit of the formal answer. We had to take our decision, and we did.

Mr. PIGEON: Mr. Chairman, I think that the council has in its own hand a very strong argument because both the prime ministers refused to change the

law. That is why I address the following question to Mr. Henderson: What are the important reasons that you can give to the committee against the way the Canada Council is now proceeding?

Mr. HENDERSON: Mr. Pigeon, it is my duty to see that the operations of all of the agencies conform to the appropriate legislation and to the statutes which create them. I think you would agree with that. You would find that a reasonable proposition. Consequently, if I find them taking any actions which, in my view, are not in conformity or not in accordance with the statutes, then it is my responsibility, in fact, my statutory duty, to so report to the House of Commons. As I explained this morning, when we were going over the 1962 and 1963 reports, this very important matter was under consideration at that time by the council, but no action had been taken in terms of making commitments or disbursing any of the funds up to the date with which this committee is immediately concerned, namely, March 31, 1963. Subsequent to this date they have in fact moved ahead, although the 1963-64 accounts respecting this are not before the committee. Having taken that move, I have given it as my opinion that the method of allocation to which Mr. Faribault has referred is not in accordance with section 17(2) of the Canada Council Act.

Mr. FISHER: In other words, it is illegal.

Mr. MARTINEAU: What is that, what is "illegal"? I wish you to tell a lawyer what the word "illegal" is. It depends on the opinion of the man.

Mr. FISHER: You acted contrary to the law as established, according to Mr. Henderson.

Mr. MARTINEAU: According to us we have not, and it is up to us to decide what we understand from this article. To us it is a pure question of law, not a question of accounting. It is up to us to look at it, interpret it as best we can, and apply it. If we apply it incorrectly, let the government change it or tell us so.

The CHAIRMAN: Mr. Pigeon was still pursuing his questioning. I have you down as next on the list, Mr. Fisher.

Mr. PIGEON: Mr. Chairman, the Canada Council was supported by a former prime minister and by the present Prime Minister. You have distinguished lawyers with great reputations on the board of the Canada Council. I am an agronomist myself and you are a public accountant. We are in a very bad position to judge the law underlying this situation. I suppose, Mr. Henderson, you asked for advice from lawyers in your department?

Mr. HENDERSON: That is correct, Mr. Pigeon. Whenever I have any questions of this type I seek independent legal opinion. As you know, the council itself sought three opinions, two of which took the position that I have taken and one which took the other position. I myself secured my own opinion, which is the practice I customarily follow if there is any question whatsoever in my mind as to matters of this kind, because I am not a lawyer.

Mr. PIGEON: Mr. Chairman, I do not know whether we should place a motion to support the Canada Council so as to settle the matter now while parliament takes steps to change the law. Will that settle the problem for the moment?

The CHAIRMAN: That is something which we would decide after we have heard all the evidence. It is duty of this committee, after having heard all of the facts, to make its recommendations, and at that time it is something we will consider, having heard all the facts.

Mr. PIGEON: I have one last question. What opinions did you get from your own lawyers?

Mr. HENDERSON: The opinion I received supported my view, namely that the method of allocation used was not in accordance with section 17(2) of the act.

Mr. FISHER: Could Mr. Faribault put it a little bit more clearly for lay minds on why it was so important to go ahead with this particular formula?

Mr. FARIBAULT: I think that we are already late. This goes into the whole purpose of the fund, and perhaps I might reconstruct section 17 for the benefit of the committee in the way the council has construed it, and I might explain to you why we took that stand.

This section says:

The council shall establish a fund to be called the University Capital Grants Fund, to which shall be credited the sum of \$50 million, which shall be paid to the council by the Minister of Finance out of the consolidated revenue fund.

It was paid. Now, in the act there are two quite separate funds, the endowment fund and the university capital grants fund. From reading the act, and specifically sections 9 and 17 there is no doubt at all in the mind of the council that this was a one-shot proposition, that the \$50 million was given to us to distribute to the universities according to a formula. That was done because the universities had represented to the Massey commission that they were in dire need of funds for building purposes. This is set down very clearly. It is mentioned in section 9:

The council may, in furtherance of its objects, make grants to universities and similar institutions of higher learning by way of capital assistance in respect of building construction projects.

It is very clear to us that this was to meet an emergency. I do not think there is any possible doubt after reading the debates which accompanied the adoption of this act.

Then section 17 says that grants made under section 9—this is the one I referred to—may be paid out of the university capital grants fund but shall not exceed in the case of any particular project, one-half of the total expenditures made in respect of the project; and among the provinces an amount that is in the same proportion as the population of a province is to the aggregate population. Therefore, if Newfoundland has 3 per cent of the population, it will not receive more than 3 per cent of \$50 million—that is, the institutions within the province, and so on, all across the land. There is not a word in the balance of the act to the effect that moneys outside the \$50 million can be transferred to that fund. The only references are to the effect that if an investment is made, then the proceeds will stay within the fund.

The third explanation with regard to why we considered it was a one shot proposition is that there is a special provision which states—and I quote section 17 (3):

Investments out of money standing to the credit of the university capital grants fund may be made only in bonds or other securities of or guaranteed by the government of Canada.

If you compare these provisions with the provisions regarding the endowment fund, you can see very plainly these two are ruled by entirely different regulations because the purpose is different. You do not invest, especially in Dominion of Canada bonds, if you are going to make a profit. This is a short term thing. Therefore, the important thing was that no loss, and at the same time no profit, could be made, because it was a very restricted proposition. Similarly, there is no question of interest, because it was a simple one-shot proposi-

tion. This fund had to be distributed. Section 16 has reference to the endowment fund and says:

Any expenditure made for any of the purposes of this act, except section 9, may be paid out of (a) the return on investments made out of the endowment fund; (b) the amount advanced to the council under section 15; or (c) money, securities or other property received by the council by gift, bequest or otherwise—

Then you can see that if all the funds present in the endowment fund are to be used for one specific purpose, which is not section 9, then you are limited to sections 9 and 17 for the university capital grants fund, and therefore are limited to that \$50 million, and cannot increase it.

If you look at section 20, it says:

The council may acquire money, securities, or other property by gift, bequest or otherwise, and may, notwithstanding anything in this act, expend, administer or dispose of any such money, securities or other property not forming part of the endowment fund or the university grants fund, subject to the terms, if any, upon which such money, securities or other property was given, bequeathed or otherwise made available to the council.

That means you just cannot increase the \$50 million. This is a one-shot proposition. It is money given by the government for that purpose. This is very, very clear to us. But, we had to inquire from the prime ministers, because if they had said it is the policy of the government to increase that, then we could have construed the act differently. However, with a one-shot proposition we are back with section 17 (2), the one in respect of which the Auditor General has difficulty. This section says we cannot make grants which exceed the ratio of the provincial to the national population. We have \$50 million; how much of it represents the ratio going to universities? We made a list and said this is it; the province of Newfoundland is \$1,293,000 and other provinces so many millions of dollars. This was the basis.

All the universities were clamouring for funds. They said they were in dire need. We started telling them that we would give them up to one half the building cost. This is what the act says. They were not ready to build. Some were ready, but the plans were not there and they did not know whether they would have any money; they had to have the other half of the money from the public and from their own provincial government. It took a lot of time. They were interested.

In the meantime we earned the interest and actually made profits, even on dominion government bonds. We made a substantial profit on those. I think we made \$3,500,000 profit by astute management of the funds. The Auditor General says, what is the ratio of the population? Well, in Newfoundland it is \$1,293,000 out of \$50 million. It would be very simple if nobody had received any amount and the distribution had been made after five years, including the capital plus the interest, and profit; you would have \$65 million, and you would have this simple arithmetical calculation. This is not what happened. What happened is that in 1958 one university said they were ready to get the money and asked us to hand it over. We turned the money over to them. In the province of Alberta we said that the university is entitled to so much. We said, "Here is your amount in capital." What about the interest? This is the crux of the problem. There was not a word about interest in the act. The law states that interest follows principal; this is as sound a principle as I know in law and in economics, too. The owner of the property is entitled to the income; the owner of the principle is entitled to the benefit. Actually, we said all right. We think the Auditor General means this interest must follow population. But, this does not solve anything, because when you get \$1,293,000

in 1958, are you entitled to the interest prior to the moment you receive the money? I would say, yes; but are you entitled to the interest after you receive the money? I think anybody will say no, because you have had this money and therefore cannot get it twice. How are you going to do it? The way I have just put it, in order to try to make it as clear as possible: if you start making a distribution and say the province of Quebec is entitled to \$15 million, then if it does not receive the \$15 million, and assuming that the institutions in the province of Quebec had not received one cent, the normal thing would be to say they are entitled to \$15 million plus all the interest earned by that \$15 million since the fund was set up; but there is no provision in the act which says you are going to divide the total fund in as many parts as there are provinces. Therefore, we asked this question and said this is the only equitable way.

Is it contrary to the act? Some lawyers said "Yes, it is contrary to the act because it is not mentioned in the act." They say that if it were mentioned in the act it would be all right; but they say according to common law unless it is mentioned in the act you cannot apply it. We were not convinced by that for a good many reasons; one is that according to common law, in my own view as a lawyer, and quoting Blackstone, all the common law of England would apply on this point. On this point, some lawyers disagree. Opinions were received which I respect, but which do not convince me as a lawyer.

The second point is that some other lawyers have said, "We have read the act and we have taken that into consideration; we think this is what a man would think at first blush, but the consequence is ridiculous and therefore it cannot be what parliament intended; parliament intended something reasonable, and therefore it cannot be the direct conclusion". So, on the one hand, you have the man who takes a literal interpretation and the other who says, no, because according to the statute of interpretation every statute must receive a broad interpretation. This is what I am doing, and I consider this is what parliament intended. If it is a one-shot proposition, I think clearly this must be what parliament intended.

The third reason is that we read the act in the English language and in the French language and find there are discrepancies. We have to weigh the opinions which we receive. Finally, who is going to say it will be according to what criteria? There was not a shadow of a doubt in our minds. The only criterion was that it was not contrary to the law and that it had to be equitable. We were supported in our view by the fact that in section 21 it states that the council shall be deemed to be a charitable organization in Canada.

Therefore, according to both the common law as well as the civil law and equity, a charitable organization must rely upon equity. When you say you must use a ratio which will not change the proportion as between the provinces, this must be something equitable, and this is the only possible thing in a federal country in a case like this. There are at least five arguments there which convinced us. But who else did they convince? They did not convince the one board; but they convinced all the members of council who were sitting each time when this matter came up for consideration.

You must realize that I am the only one left of the members of the board who first examined this thing. All the other members have been changed. That means that five or six times when this matter came up before council the decision taken was unanimous in all cases.

At least 42 persons, after receiving legal advice, after looking at the matter, after receiving independent advice and viewpoints, after considering the practice followed in the United States, and after looking at the facts, came to the conclusion there was nothing else to do but to take what they felt was the equitable view. But this is not sufficient to convince the Auditor General.

I am not blaming him, because the Auditor General has a duty to perform, and he is empowered and even required by section 22 to review and to audit

the accounts and financial transactions of the council. We were very glad that he raised the question and we were very glad that he raised the question before we actually took the last decision.

Therefore, we appeared before you on November 18, 1963, and gave, in other words, what I have just given to you as an explanation. We were questioned very plainly: "What are you going to do?" We were given many questions. Some said: "Can you get an opinion from the supreme court?" And we said: "No, we are not competent to get an opinion from the supreme court."

Somebody said: "Do you wish to have the act amended?" I have answered Mr. Pigeon that we have looked into it and we have been told that it was not the opinion of the government of the day to do so.

We were asked other questions such as: "Would you be liable if you did this?" We have taken advice and we have been told that we would not be personally liable.

Somebody said: "Would you have wished the act to be amended?" We said, "Perhaps". But to all of us this has become something about which we are convinced, therefore, we do not need an amendment. We are going to proceed according to our judgment, according to what we believe is equitable, and according to what we believe is the only construction to be put on the act. This is what we have been doing.

Whether this can be called illegal or legal is a matter which is extremely difficult because, if you ask me as a civil law man, I have no shadow of a doubt that it is perfectly legal, and not only that, it is the only way you can do it.

I think anyone trained in the civil law would say the same thing. There is no shadow of a doubt that the formula we have adopted, the hotchpot formula, is the true standard of procedure. It is written in black and white in the civil code of the province of Quebec; it is mentioned by Justinian, and it is also mentioned by Blackstone as being the common law of England. Therefore, when some lawyer says it is not a proper construction and that it should be construed according to the statute law, I beg to differ. It so happens that the whole council begs to differ. Therefore, the council has decided to proceed according to this interpretation. This is the first point.

We concede that we cannot in all equity deprive the institutions of a province of the earnings made by the fund on money which they have not yet received. Therefore, we will use the formula for that.

The next case on which the Auditor General is not satisfied is the question of the reference to the census. The act says this: "according to the latest census." It is governed by the same simple rule. If you say it is a one-shot proposition, then the census is the last one before the proposition.

But if you say it is a continuing proposition, it may be that it is the census at any time you read the act. Therefore, you cannot change from one to the other because it would be acting in a continuous way, or because the fund would be replenished. But it has not been replenished at any given moment. Nobody has given us information that it will be replenished.

We asked the government and the two prime ministers. No, it is not to be replenished. There is nothing said by the prime ministers. How can we presume that it is going to be replenished, or how can we presume we must follow the wording, "the latest census"? Suppose we change the census after we have distributed one half of the fund according to the census of 1956? Where in thunder is our principal going to be? The population of several provinces has changed between the 1956 and the 1961 census.

You cannot say we will distribute one half the fund according to one formula and the other half according to another formula. All you can say is that you must distribute the fund to all the beneficiaries. But how can you say that, for example, Saskatchewan is entitled to it under the 1956 census,

but that Prince Edward Island is not. Nobody I know of, or any mathematician I know of, can reconcile it. It is just impossible. If you include the question of interest and profits, it becomes just unworkable.

The only issue I think before the Auditor General and us is to take steps, if necessary, to change the act, because according to our view it is legal, but according to his view it is illegal. We put the question to you in November last, and you put the question back to us. You said: "Do you wish to have the act amended?" So far as we are concerned, since we consider that we have no problem, we are quite satisfied, and we are going to distribute the money. We feel it is a proper construction and an equitable one.

I believe that the lawyers, when there are different viewpoints, will never be satisfied. One may say that he is right, and that this is illegal, but to us it is a matter of law. We have acquired advice in law, because it is one of the propositions where we think we are right. But it is also a matter of discretion, because we have asked the two governments, and they said: "You take your own responsibility; we do not want to give you instructions." It is up to you to decide. So six times unanimously we decided to do it this way. I am quite willing to give any further explanation, but that is as clear as I can put it.

Mr. FISHER: It is clear. I have no complaints to make at all. The only question I raise is that perhaps this part of the act will in fact lapse anyway.

I should also like to ask either Mr. Henderson or one of the officials whether the legal opinion he received covered the possible eventuality of determining the legality of that which the council went ahead and did.

Mr. HENDERSON: Mr. Chairman, perhaps I might, before answering Mr. Fisher's question, be permitted to remind Mr. Faribault that a prominent national firm of chartered accountants was employed, and requested by the council to study this entire problem of allocation of interest and profits. If I recall, sir, you suggested they endorsed the hotchpot method, and I think you suggested they quoted or gave a legal opinion. I have the report here of that chartered accountant firm in which they state, and I quote:

We are not competent to comment on the legal question as to which basis of allocation of interest and profits is in conformity with Section 17(2) (b) of the Canada Council Act.

Their report deals with the mechanics of distributing trust fund money under the hotchpot method, which Mr. Faribault has described to you. This approach, proposed as it was by the council for action, provided, as Mr. Faribault has said, that grants already paid to institutions were to be treated as advances subject to interest. Their resolution also provided that the latest census, as Mr. Faribault has said, to be employed for the purpose was to be the census taken by the dominion bureau of statistics in 1956. I have already told you that, in my opinion, this method of allocation is not in accordance with section 17(2) of the Canada Council Act. No provision is made in this act for interest to be charged on grants already paid to institutions. In respect of the remarks about grants paid subsequent to 1961, the words "latest census" used in the statute would in my opinion mean the census taken by the dominion bureau of statistics in that year.

Does that deal with your question, Mr. Fisher?

Mr. FISHER: Yes.

Mr. FARIBAULT: I think the situation is quite clear, Mr. Chairman. I might say while we are quoting from the report of the chartered accountants that they also say:

This is the method suggested by Mr. Faribault. It is also the method commonly followed by trust companies in allocating income from a trust or estate held for a number of beneficiaries where some of the beneficiaries withdraw capital before others.

That involves the whole issue. We are not quarrelling with the stand taken by Mr. Henderson. We are happy he raised the question because since he raised the question here this committee and everyone else has been apprised of the situation. Therefore, we feel at ease in doing what we are doing because we indicated last year what we were going to do.

MR. HENDERSON: Mr. Chairman, I think I should like to add that as far as the practical application of this method is concerned, I have no quarrel with the action taken by the council in adopting this hotchpot or trust fund approach. It is a standard approach that you will recognize as being generally used by trust companies and others similarly situated. Nevertheless, in my work, as you can appreciate, I am bound by the statutes and if I have any doubt about those statutes it is my duty to seek legal advice.

MR. PIGEON: Mr. Chairman, what would be your attitude toward this committee supporting the action of the Canada Council by motion?

MR. FISHER: That is the point about which I should like to inquire, Mr. Chairman. It seems to me that a recommendation of this committee taken in the form of a motion would mean absolutely nothing in a situation such as this, particularly as far as the Auditor General is concerned. I suggest that we should go to the trouble of recommending a change in the statute. Action as has been suggested may be worthwhile but it seems to me to be just mere nonsense. I feel what we have to do is state very strongly we feel the matter should be left in abeyance, complimenting the Auditor General for bringing this to our attention and the Canada Council for working out a practical solution.

The CHAIRMAN: I think this subject should be discussed at a later date. I do not think this is the time to deal with that matter. Before we complete our deliberations we must form some recommendations, and in doing so all views expressed here today will be taken into consideration.

MR. FISHER: I have one further question I should like to ask Mr. Faribault.

Which province or provinces were gored by this particular interpretation at which you have arrived? I assume that the provinces who were first in for the money are those which would gain by the other interpretation. I am just wondering which provinces were involved?

MR. FARIBAULT: That question is practically unanswerable, for a good reason, with the exception of its application to one province. In Newfoundland there is only one institution entitled to receive these moneys. Different situations exist in each province. Some institutions in different provinces may have received these moneys early while others may not have received any as yet. This situation may have a cancelling effect, according to the change in the census. Perhaps I could check that information and present it to you at a later date.

In one province the change in census may not make a difference in the proportion, whereas in other provinces such as British Columbia, Alberta and Ontario there might be an increase. Whether or not there is any advantage in pursuing a discussion of this type I do not know. This is something we have always felt would be an extrapolation. If reasons are sufficient to adhere to the first census of 1956, this might create some difficulty, ambitions or claims in respect of other provinces. If one goes to the trouble of deciding on X hypothesis, following a specific formula, then a province might receive more or less than otherwise. We do make a calculation in advance.

MR. FISHER: I am intrigued by the fact that the Canada Council is a unique organization in its relationship to government and parliament. I am not aware of any other agency of this type. The response of prime ministers to approaches made by the Canada Council is consistent with this idea. There

is almost a unique approach involved here as a consequence of which the only link parliament has, it seems to me, with any kind of scrutiny in respect of the Canada Council lies in the Auditor General and whatever tradition there may exist in this committee. As I remember it, after the first time the Auditor General made his comments in respect of the Canada Council, and that was Watson Sellar, Brooke Claxton, then chairman of the Canada Council, was prepared to make the case that the council was not required to be examined and was presenting itself almost as a courtesy. In view of what has transpired in respect of the council going to prime ministers, this relationship should be considered. It seems to me this organization has been put in the unique position of being left entirely alone when it does run into problems. The only connection, it seems to me, the government really has with Canada Council, in any control sense, is the appointment of officials to the board.

The CHAIRMAN: Mr. Wahn; then Mr. Pigeon and Mr. Ryan.

Mr. WAHN: My questions were on another subject, Mr. Chairman. My only comment on this would be that I do not think we should suggest this action was illegal. Legal opinions on a complex matter may vary greatly; and it seems to me that in order to decide what the true legal answer is in this case it would be necessary to have the matter referred to the Supreme Court of Canada, which might be done by the government if the cabinet were to think it of sufficient importance. This is something for the government.

Mr. PIGEON: Mr. Faribault has presented very strong arguments before the committee, and I think he said it is not necessary in his view to change the Canada Council.

Mr. FARIBAULT: This is our feeling.

Mr. PIGEON: And, with regard to the board of the Canada Council, many distinguished lawyers from universities and so on support your views. I do not know if it would be a good thing to present a motion. If the majority of the members of this committee were to support the Canada Council, I think there is an obligation upon a distinguished civil servant, as Mr. Henderson is, to say, "If that is the voice of the people, so be it."

Mr. CHOQUETTE: What is the question?

Mr. RYAN: Mr. Faribault, would you be of the opinion that members of the Canada Council are statutory trustees for the amount of money that has been put in their hands, plus the interest that has accumulated?

Mr. FARIBAULT: This is certainly the way in which I would look at it.

Mr. RYAN: Who would be the *cestui que trust* in the case of this statutory trust? Would it be the universities generally or the province, or some area between the two?

Mr. FARIBAULT: I think, as Mr. Fisher has said, this is a unique case for which there is no precedent. In the case of the *cestui que trust* here it is clearly the public, but not the same public. In the case of university capital grants, they are the universities. This is a typically new institution of a special kind, a public trust to be administered within a federal country with all the provisos that could be imagined to preserve equality as between several institutions which come under provincial jurisdiction.

This is a very complicated matter, but that is the way I feel about it.

Mr. RYAN: What concerns me is that if the *cestui que trust* can be determined in any province, particularly in a province other than Quebec, then they could at any time in future sue Canada Council if they are of the opinion that Canada Council has misconceived its distribution power or the formula.

Mr. FARIBAULT: I would not think, as a matter of law, that this was the case because the *cestui que trust* are not named; they are just to be determined

and they are to be determined according to the discretion of the council. This is strictly in accordance with the decision of the Supreme Court of Canada in the case of *Valois vs. Boucherville*. It was heard in the province of Quebec. It was stated that it was competent—and this was a decision rendered by the full court which was specially called in—for a trustee to be called in with the right to select the institutions to be benefited from the charitable trust. That means that there was no *cestui que trust* there. At the same time, the attorney general asked that the Supreme Court of Canada be called in to hear the case in order to ascertain whether he had the power to intervene to protect the *cestui que trust*. The answer was that he was not competent.

This is a very unusual type of decision. It is quite consonant with Quebec law, but I am not so sure that it would be consonant with ordinary common law or equity; but, such as it is, I think in this case this was the only position that could be taken because universities and other institutions of higher learning are those who can benefit, but they are not otherwise defined, named or entitled to anything.

At the time the council was set up, we came to the conclusion that in law there probably was no single beneficiary which could ask for any given amount or proportion of the capital fund.

Mr. RYAN: Were your legal opinions written opinions?

Mr. FARIBAUT: On that, no.

Mr. RYAN: Did you obtain written opinions on this particular point of the *cestui que trust*?

Mr. FARIBAUT: No, I do not think so. However, in order to be very sure of our ground, council made a list of all the institutions of higher learning which could conceivably be considered as eligible at the time to receive such amounts—and it went to the trouble of asking the National Council of Canadian Universities to give a list of all such institutions with proper statistics as to their enrolment. Council decided that all these institutions would be entitled to something.

These two matters are very closely tied in together because, by taking the action which I have just explained to get away from the difficulty of the unnamed beneficiary. The *cestui que trust* which the council thought would be the beneficiaries were all those mentioned in the list as eligible. We have not gone outside that list.

Mr. RYAN: What about the case where you have already made a grant to a university? Is it possible that they might claim that they have a vested interest in some of these moneys?

Mr. FARIBAUT: I do not think so.

Mr. RYAN: They might come along later and say that time limitations do not run against statutory trustees, and maybe in 20 or 25 years from now you will find yourself in difficulty.

Mr. FARIBAUT: The only restriction is not as between universities; it is as between the total amount in the province. We feel we are not restricted outside of that, and we feel we are not bound to any university or special institution otherwise than by the following provision:

Grants...shall not exceed...in any province, an amount that is in the same proportion to the aggregate of the amounts credited to the University Capital Grants Fund as the population of the province, according to the latest census, is to the aggregate population, according to such census, of those provinces in which there is a university or other similar institution of higher learning.

The moment there is a university in a province, we cannot vote that university any specific amount unless we so decide. We cannot give the amount which normally would be spent in that province to an institution in any other province. Therefore, we think we are not caught within that dilemma.

MR. RYAN: Is there not some procedure whereby this could be brought to court in Canada, not necessarily to the Supreme Court of Canada. Could a university not bring a case in their own province?

MR. MARTINEAU: They would not have a right to sue. The council may make grants. No university has a right to sue. A grant may be given or it may be refused.

MR. RYAN: The only remedy, then, to be absolutely certain is to have parliament ask for a reference to the Supreme Court of Canada; is that correct?

MR. MARTINEAU: Or change the law, but by that time we will have spent the money and the question will be settled!

The CHAIRMAN: Are there any further questions on this particular issue?

MR. FISHER: I notice in the presentation you made to the cabinet in March for more funds there was no mention made of an increment for this capital grants fund. Is this another indication that the council knows completely and thoroughly and absolutely that they are working, in a sense, on a dying issue?

MR. FARIBAULT: That would be my belief, yes.

The CHAIRMAN: Are there any more questions on this problem?

If there are no further questions, the Chairman would like to say, Mr. Faribault, that he is sure members of the committee would look with sympathy upon any interpretation of the act upon which parliament expects reasonable consequences to flow from its statute.

Thank you very much for your attendance on this particular issue. We welcome what has been a very clear and lucid explanation.

MR. FISHER: Mr. Faribault, I would point out, representing continuity, is an argument for continuity on the Canada Council.

The CHAIRMAN: And Mr. Fisher is one for continuity on committees!

Gentlemen, the meeting is now open for any other matter in which members may be interested with regard to financial statements and, of course, the contents of the reports.

I would hope for the sake of pursuing a reasonable and intelligent discussion that when one member has initiated a discussion we will restrict ourselves to that particular aspect before moving on to another.

MR. FISHER: Mr. Chairman, I just wanted to pay a compliment to Dr. Trueman. I suppose you are the literary author, in effect, of the council's main report?

DR. A. W. TRUEMAN (*Director, Canada Council*): This is a somewhat composite effort. The arts section is done in toto by Mr. Dwyer, Mr. Bussière looks after the UNESCO part of it. We take in each other's washing and co-operate in bringing forward this report.

MR. FISHER: I would like to compliment you not only because of the literary quality of the report but because you are prepared to argue in the report against some of the criticisms which flow into the public print and media during the year. I think this is the kind of aggressive approach that is very worth while, and I wanted to put this on the record. This is always an entertaining report. It reminds me of the reports the U.B.C. used to put out each year. I do not know what the administration is like out there but the president always made it sound great.

MR. MARTINEAU: Thank you, Mr. Fisher.

The VICE-CHAIRMAN: I have Mr. Pigeon followed by Mr. Hales.

Mr. PIGEON: Mr. Chairman, I do not know if you have a procedure in respect of putting questions.

The VICE-CHAIRMAN: The field is open, Mr. Pigeon.

Mr. PIGEON: I would like to address my first question to Dr. Trueman.

On October 5, 1963, you made a speech to the Rotary club in Toronto, which was reported by the Canadian Press. I will quote in French.

(Translation)

This is what Dr. Trueman said:

I believe that if the present government plan is implemented a considerable amount of money will be awarded in the form of scholarships to those who are studying for the purpose of getting a B.A. or a B.Sc.

That is what you apparently said in a speech you gave at Toronto.

(Text)

Mr. TRUEMAN: I do not recall this. I wish I had the text in front of me.

Mr. PIGEON: I have not the text, but if we have another meeting I will see if I can bring forward more information.

Mr. TRUEMAN: Could I look it up?

The VICE-CHAIRMAN: Well, we will continue and if the meeting carries on this evening this information may be available then.

Mr. RONDEAU: What is the question?

Mr. PIGEON: Is it a fact that you said in Toronto that you heard the government was going to bring in legislation to give scholarships for students in respect of classic courses leading to—

Mr. TRUEMAN: I think that must be a misquotation. I recall simply referring to the widely advertised fact that the government had spoken publicly about the possibility of creating a large scholarship and fellowship scheme. I do not know whether or not this has been pursued. But, it may be that has been replaced by the present legislation in respect of student loans. I know it was a reference to something the government had talked about.

Mr. PIGEON: Did this refer to students in universities only?

Mr. TRUEMAN: I think that was what the reference was to in this thing to which I was referring.

Mr. PIGEON: If we have another meeting perhaps I could go into this in more detail. I appreciate very much the fact that you have not a copy of your speech.

Mr. TRUEMAN: We will look it up. However, I do not recall the details of it.

Mr. FRANCIS: On a point of order, Mr. Chairman, how far are we justified in going afield? This is a public accounts meeting and I do not feel that members of the Canada Council should be put under examination on their personal views in respect of matters unrelated to the activities of the council.

Mr. PIGEON: But I think if you read carefully the part of the speech I have you would infer that Mr. Trueman was speaking for the government, and that is why I asked my question.

The VICE-CHAIRMAN: This is not the time to question articles which appear in the press. We are here to put questions on the report as submitted by Canada Council and not in respect of articles which appear in the press. This is not fair to the man who made the speech because more than likely he has not his original text here.

Mr. TRUEMAN: If I had the original speech here I would be able to be more helpful.

Mr. PIGEON: Perhaps we could pursue it at our next meeting.

Mr. CHOQUETTE: Bring all the speeches you have made to our next meeting.

The VICE-CHAIRMAN: Would you proceed, Mr. Hales.

Mr. PIGEON: I have not concluded my questions, Mr. Chairman.

The VICE-CHAIRMAN: Excuse me. Would you proceed, Mr. Pigeon.

Mr. PIGEON: Could you tell me the total amount of money which you gave to the universities across Canada last year?

Mr. TRUEMAN: In respect of university capital grants?

Mr. PIGEON: Yes.

Mr. TRUEMAN: For buildings?

Mr. PIGEON: Yes.

Mr. TRUEMAN: Do you mean for 1962-63?

Mr. PIGEON: Yes.

Mr. TRUEMAN: The sum of \$6,892,290.

Mr. PIGEON: I would now like to put this question. Did the Canada Council receive a resignation from Mr. Gerard Filion as vice chairman of the Canada Council?

Mr. TRUEMAN: He does not resign to the Canada Council.

(Translation)

Mr. CHOQUETTE: He resigned from the Royal Commission on Education for the province of Quebec.

(Text)

Mr. PIGEON: I put this question because I have an article before me which appeared in *Le Devoir* under date of May 15, 1962, which reads:

I resign if the Canada Council will give grants to Canadian universities.

That is why I addressed the question to you.

(Translation)

Mr. MARTINEAU: When Mr. Filion resigned he did not send his resignation to the President of the Canada Council but to the minister who had appointed him. So it was never submitted to us.

(Text)

The VICE-CHAIRMAN: Would you proceed, Mr. Hales?

Mr. HALES: Mr. Chairman, my questions will deal with the expenditures and cost of operation. I do not wish to detract from Mr. Fisher's complimentary remarks about the production of the annual report. However, on page 4 we are told that the increased cost was \$6,638 for the production of the 1962-63 annual report, and I notice there are 43 fewer pages in it.

Mr. TRUEMAN: Which report?

Mr. HALES: The 1962-63 report. I am reading from the bottom of page 4 of the 1963 statement, which deals with printing and duplicating costs.

Mr. TRUEMAN: Yes.

Mr. HALES: We are told that the 1963 annual report cost \$6,638 more than the 1962 report.

Mr. FISHER: Read it through. It goes on to say:

...and to an expenditure of \$5,744 for the booklet "Private Benefactors and the Canada Council".

I would assume the actual increase in cost of the annual report was the difference between \$5,744 and \$6,638.

Mr. HALES: Is that true?

Mr. TRUEMAN: Yes.

Mr. HALES: Therefore, there was a \$900 increase?

Mr. TRUEMAN: Something of that order.

Mr. HALES: Well, then I read that wrong. That is not out of the way although there are 43 fewer pages and it cost \$900 odd more.

In respect of advisory service fees—and this is on exhibit III—they were \$49,000 odd in 1962 and in 1963 they were \$41,800. This seems quite a large amount. Could you explain to the committee what is involved here?

Mr. TRUEMAN: Well, this covers fees that we pay to the social science research council, the humanities research council and the Canada Foundation, in the main. This relates to the costs which they meet, or did at this time, to carry out certain services for us. For instance, the total expenditure in respect of the scholarship and fellowship scheme is in the vicinity of \$1,100,000, and sometimes it is above that. The whole of the recommendations for most of that, with the exception of \$200,000 or \$300,000 devoted to the arts, is handled and processed for us by an arrangement with these two organizations, H.R.C. and S.R.R.C. That is to say they set up committees to review some 1,200 or 1,300 scholarships. They call the committees together. They undertake the posting of material, and so on and so forth. They have arranged with us a charge which we think does no more than cover their out of pocket expenses. These are the things referred to here.

Mr. HALES: I have one other question on this expenditure. I notice you had five council meetings. Would you mind telling us where these council meetings were held? They cost approximately \$5,000 each.

Mr. TRUEMAN: It has been our practice to hold five council meetings a year, one of which is usually held outside of Ottawa, so four of those would be held in Ottawa and the fifth one—we are talking about 1962-63—was held in St. John's, Newfoundland.

Mr. HALES: Who attends these meetings?

Mr. TRUEMAN: The members of the council. The council consists of 21 members, including the chairman, the vice-chairman and 19 other members. I think we have an average attendance of something like 19 members from all over Canada, plus the officers who have to be at the council meeting.

Mr. HALES: Do the councillors have their transportation paid to all these meetings?

Mr. TRUEMAN: They do. There is an order in council which covers the investment committee expenses also.

Mr. WAHN: Mr. Chairman, I would like to say it is certainly pleasant to see that the figures indicate that not only the fund earned a very good return, but there also has been a very substantial capital gain. I think Mr. Fullerton, and those members of the committee who are responsible for it, certainly deserve commendation.

Mr. TRUEMAN: Yes.

Having said that perhaps I could revert to my more usual character as a member of this committee and ask this question of Mr. Fullerton, if he is here. I gather that in the future the investment advice will be given by the firm of Fullerton, Mackenzie and Associates Ltd. I would like to ask Mr. Fullerton what is the nature of business of that firm.

Mr. FULLERTON: It is bond investment counselling principally, but certain other counselling as well. However, it is principally the management of pension funds and similar large aggregations of capital, as well as management and advisory services.

Mr. WAHN: My next question is whether the firm provides its services purely on a professional basis for a fee, or does it, either itself or through associated companies, derive any commissions on securities which may be bought or sold by the fund, or does it buy and sell as principal to the fund?

Mr. FULLERTON: No, the council carries out transactions simply on the advice we give. My firm does no trading of any kind on its own account either in stocks or in bonds. It is truly a management service on a professional basis, for a fee.

Mr. WAHN: The administration costs of the endowment fund, according to exhibit 2—I am looking at the 1962 report—amounts to about \$467,000 out of a total expenditure of about \$3 million, which is about 16 per cent of the total. Is it possible to make any comparison with other organizations, preferably of a similar nature, to determine whether or not your operations are reasonably efficient and whether or not this administration charge is unreasonably high?

Mr. TRUEMAN: It is very difficult to make a comparison because in more ways than perhaps Mr. Fisher has suggested we find ourselves unique. The closest comparison that I have been able to make is with the arts council of Great Britain, but immediately you run into difficulties in making that comparison because its concern is solely with arts, whereas ours is with humanities and social sciences as well. It does not, under any act that it operates under, maintain a scholarship and fellowship program. It gives its grants entirely to organizations. Now, we have, of course, a scholarship and fellowship program. We have a program for supporting organizations representing the arts, for organizations representing the humanities and social sciences. We have to operate out of the income of the endowment fund, the university capital grants fund, and we have to maintain also the secretariat of the national commission for UNESCO. By the act all the administrative expenses of all these activities must be borne out of the income of the endowment fund. So that when you put down the total cost of all these things as a percentage of the endowment fund income, it looks a little bit on the high side, but when you break it down, I think it is very reasonable.

We think that after making some such attempt at a breakdown, which is a pretty artificial thing, if we take our costs of operation in 1962—the first year—as a percentage of the total income of the council, that is to say the income which we get from the endowment fund and the income we get from the university capital grants fund, we find that in 1962, it was 10.2 per cent; in 1963 it was 8.8 per cent. If you take the total administrative costs as a proportion of the endowment fund income alone, it was 15.7 per cent in 1962, 13.3 per cent in 1963 and about the same during the year that we have just finished. If you take the endowment fund cost, that is to say the cost of operating the program of the endowment fund as a proportion of the endowment fund income, it was 12.7 per cent in 1962 and 10.3 per cent in 1963. The last time I made a calculation—you asked if there was any way of making a comparison—of the costs of the council of Great Britain, with their restricted program which deals only with the arts and only with organizations, the best that I could figure was that their cost was somewhere between 11 and 12 per cent of their income. So the only conclusion that I can draw is that we are keeping within the bounds that regulate organizations of this kind. However, I repeat, the comparison is most difficult to make, because, as we have said in our annual report, we have as our responsibility in the Canada Council duties which in Great Britain are divided amongst four different organizations: the arts council, the British council, the university grants committee, and whatever department of government handles UNESCO.

Mr. WAHN: Could Mr. Henderson suggest any yardstick, or does he feel it would be possible to find any measure at all, by which we could compare the

efficiency of the Canada Council with the efficiency of other organizations, particularly in relation to administrative costs?

Mr. HENDERSON: Mr. Wahn, I find myself substantially in agreement with what Dr. Trueman has said. This is a subject which he and I have discussed, and by and large I think the level of the administrative costs is eminently reasonable. That would be my observation.

Mr. WAHN: Mr. Chairman, I have just two more questions. The first question is this: the statement indicates that the moneys of the university capital grants fund must be invested in government bonds, but that the money for the endowment fund can be invested in any securities which the investment committee considers desirable. It would appear in my calculations that about one seventh of the total endowment fund is invested in common stocks and convertible debentures and the rest in bonds and mortgages. Has any consideration been given by the council to the proper proportion which should be maintained? I hasten to say that if the council put all its money in common stocks or convertible debentures and the market went down, undoubtedly it would be asked questions on why they were so rash? Has any consideration been given with regard to whether one seventh of the fund in common stock and convertible debentures is a reasonable proportion, particularly in view of the emphasis which in recent years has been placed upon getting more money into Canadian common stock.

Mr. TRUEMAN: I can give a general remark, but I think Mr. Moore or Mr. Faribault might answer in more detail.

Mr. MARTINEAU: Mr. Moore will answer.

Mr. TREVOR MOORE (*Member, Canada Council*): I think the answer is the importance of income currently which we cannot get from common stocks. If we were to increase the proportion of common stocks, our income would be adversely affected.

Mr. WAHN: I gather that the university grants are divided up reasonably into the population of the various provinces. Is a similar principle followed with regard to the amounts of money paid out of the endowment fund?

Mr. TRUEMAN: No. The council never has adopted a principle that X per cent of its revenue should be spent in this province and X per cent spent in another province.

Mr. WAHN: I do not know whether it would be possible to obtain this information, but I would be interested in finding out the disposition of the endowment fund over the period of the life of the council in relation to the populations of the various provinces. I would think that should be possible.

Mr. MARTINEAU: We do not operate in that way at all. We do not think of provinces and we do not think of population; we go only by talent. There may be a lot of talent one year in one quarter, and maybe the next year it would be elsewhere. We do not know; we just give them as they come along. We do not give as many as we would like to give because of the little money we have.

Mr. WAHN: Perhaps I have been misunderstood. I am not suggesting that the population basis is the correct basis, but personally, I would be interested in knowing where the talent is which has justified the grants. In other words, I think it would be extremely interesting to find out, and I would ask that if possible the witnesses provide this information.

Mr. MARTINEAU: It would be misleading information unless you knew why the judges decided in this way in a particular year. The figures always can be obtained, but they would not give you very much.

Mr. TRUEMAN: I agree; but there are two problems which make it difficult to make such figures meaningful. If you take the matter of scholarships and fellowships and give one to a man in British Columbia who is going to do his work towards a doctorate at the University of Toronto, is this to be credited to British Columbia or to Ontario? He is spending our money and his time and effort in Ontario. Another thing is that we give grants to arts organizations. We give a grant, we will say, to the Canadian Players Company; part of the grant will be for a tour in western Canada through the three prairie provinces and British Columbia, part of the grant will be for a program they are putting on in Toronto, and perhaps there may be a second company which will be making a tour in eastern Canada. The company has its headquarters and perhaps its rehearsals in Toronto. You might say, "All right, this \$35,000 went to Ontario, but \$15,000 of it was for this company to tour the four western provinces". To my mind, this is a grant to the other provinces.

We can provide those figures, but what I am suggesting is that it is very difficult to draw any kind of proper conclusion from it with regard to where the money of the Canada Council is being spent.

Mr. WAHN: Perhaps it is up to the steering committee to decide whether or not this information would be useful. I can see the difficulty. However, when the information is furnished, the basis upon which it is prepared could be stated, and members of the committee can make their own interpretation.

The VICE-CHAIRMAN: This matter will be brought up before the steering committee.

Mr. PIGEON: I read in the French report—

(Translation)

I would like to ask Mr. Henderson a question.

The VICE-CHAIRMAN: In 1963?

Mr. PIGEON: In 1963.

The VICE-CHAIRMAN: In 1963.

Mr. PIGEON: On page 5 of the report in French.

(Text)

The VICE-CHAIRMAN: It is page 5 of the 1963 report.

(Translation)

Mr. PIGEON: I would like to ask Mr. Henderson whether the firm of Fullerton, Mackenzie and Associates Limited. I do not have the English version. I asked for a copy in English.

The VICE-CHAIRMAN: Very well.

Mr. PIGEON: Yes, in the report in French.

The VICE-CHAIRMAN: In 1963, page 5.

(Text)

Mr. TRUEMAN: In the 1963 report.

Mr. PIGEON: Page 5 in the French copy at the top, investment, \$54 million.

(Translation)

Mr. MARTINEAU: Where it says that Fullerton and Mackenzie manage the investments?

Mr. PIGEON: Yes. As regards that firm, it cost the Canada Council \$15,000 to have the firm look after their investments, plus their telephone expenses which must not exceed \$5,000. I would like to ask Mr. Henderson whether the Council's investments could not be handled by a government agency, by the Treasury Board or by the Auditor General of Canada so as to economize

on these expenses which amount to nearly \$20,000? The Canada Council would thus have an additional amount to use on scholarships or grants.

(Text)

Mr. HENDERSON: I have no doubt that the investment portfolio could be managed by other agencies in the government. I think you mentioned the treasury board and also my office, but I think you will appreciate that we would not undertake anything of an administrative character like this. A possibility, for example, might be the Bank of Canada. I believe there was a time when the Bank of Canada managed it; that might the sort of thing you envisage. However, it is my experience that the responsibility for handling a diversified portfolio like this requires highly specialized experience and attention. It generally is standard practice, where large portfolios have to be managed, to employ consulting firms such as Mr. Fullerton's firm, which can devote a very considerable portion of their time, as indeed they do, to handling it. Telephone calls are expensive, and the great many switches which would have to be made to pick up capital gains or to improve yield require very quick action. I believe the council is well satisfied with this arrangement. I would not have any further comments to make.

(Translation)

Mr. PIGEON: Now, Mr. Henderson, there are certainly a number of investments these Crown Companies could make. I do not know whether a government agency could look after the investments of all the Crown Companies in order to economize as much money as possible. A central agency, a main body could look after investments for the Canada Council and any other Crown Company. I do not know whether that is a constructive suggestion and it might be easier for the Auditor General to look after the investments of these funds, and a substantial saving in money and staff could certainly be realized.

The VICE-CHAIRMAN: I think it is Mr. Martineau's turn to answer.

Mr. MARTINEAU: Mr. Pigeon, we could indeed do it and it would not cost as much but we would not make the same amount of profit. In 1963-64, for example, there was a profit of \$1,250,000 because of these multiple transactions, precisely because Mr. Fullerton follows the market and each day, when he sees he can make a profit he sells securities and buys other securities at a lower price. Over a period of years we have made a profit of nearly \$4,000,000, as you see, and it is because of these transactions we maintain that Mr. Fullerton earns his money several times over by enabling us to make such profits, as we could make no profit on securities by buying and keeping them.

Mr. PIGEON: Did you say you made a profit last year?

Mr. MARTINEAU: During the year.

Mr. PIGEON: During the year you made \$12,000.

Mr. MARTINEAU: No, \$1,250,000.

Mr. PIGEON: Oh, \$1,250,000.

The VICE-CHAIRMAN: He said \$1,250,000.

Mr. PIGEON: Good, that is fine.

(Translation)

Mr. LEBLANC: Mr. Chairman, I have a supplementary question also on the subject of Mr. Fullerton. I understand from the 1962 report that Mr. Fullerton used to be the treasurer of the Canada Council?

Mr. MARTINEAU: Yes.

Mr. LEBLANC: So he was the Canada Council's advisor, the Canada Council's treasurer and he managed their investments?

Mr. MARTINEAU: I shall have to make sure of that because I was not there at that time.

Mr. TRUEMAN: (Yes . . .)

Mr. LEBLANC: Yes, he managed their investments and was paid a salary by the Council, and remuneration such as there is at the present time in 1963.

(Text)

Mr. TRUEMAN: It is all right, we can give it—up to \$15,000.

Mr. LEBLANC: He was appointed treasurer at \$15,000 in 1962?

Mr. TRUEMAN: No. That was what he was getting when he resigned.

(Translation)

Mr. LEBLANC: Now, from what I understand you have a new treasurer?

Mr. MARTINEAU: Yes but she does not do that work, she would not be capable of doing it either.

Mr. LEBLANC: In that case how did you previously happen to have a treasurer who could do that work? You now have a treasurer you pay and you also have to pay a specialized firm to do that work?

Mr. MARTINEAU: I think the work is different Mr. Leblanc. What Miss Breen does now used to be done by others. When Mr. Fullerton was treasurer he only looked after the investments. He still looks after them, but Miss Breen not only attends to the books but to everything which is essential for the staff, as you know. And she is really the type of employee I wish you would have for the rest of your life, Mr. Leblanc.

The VICE-CHAIRMAN: Mr. Choquette.

Mr. CHOQUETTE: Mr. Chairman, it is perhaps a little late, but better late than never. I would like to congratulate the new chairman of the Canada Council, the honourable Mr. Martineau. This is the first time he has appeared before the Public Accounts Committee and everyone knows that Mr. Martineau is one of the most distinguished jurists in Canada. In fact he has had an outstanding career. He was on the Court of Appeal and then returned to private practice which is quite outstanding in a person's career. We are very glad he has assumed the responsibility of the Canada Council presidency because he is fully competent to guide this agency towards its objectives.

Mr. Chairman, I would like to put my question to anyone it may concern because in the preface to 1962-63 report I noticed, in the second paragraph—

Mr. MARTINEAU: On what page?

Mr. CHOQUETTE: On the first page, at the very beginning. I did not have time to get much further. A donation received by the Council is mentioned, and in the following paragraph it is stated that the object of that donation was to promote what I would call the effective sciences as opposed to the humanities, the arts and social sciences. So this is what I would like to ask, Mr. Chairman. Are the Canada Council looking for a new direction? As they have placed considerable emphasis on the generous gift they received, do they intend to direct their efforts towards another field of learning in order to promote it as efficiently as possible, because I noticed in the appendices that all the scholarships awarded are for the arts, the humanities and social sciences.

Mr. MARTINEAU: No Mr. Choquette. First of all let me thank you for the kind words you said about me a few moments ago. No, the donor comes to see us and says: "I am giving you so much for such and such a purpose". So, of course, we accept and we abide by the terms accompanying the donation, but it was not the Council's choice.

The VICE-CHAIRMAN: As you said some very nice things about the Chairman I allowed you to say something that was out of order as it is not the time

to discuss what is going to happen, the Council's policy for the coming year, but the report for 1962-63.

Mr. CHOQUETTE: But I thought Mr. Fisher had established this morning that the questions were "at large".

(Text)

The VICE-CHAIRMAN: Yes, at large, but not for any year.

(Translation)

Mr. CHOQUETTE: I was referring to the report.

Mr. MARTINEAU: Very well, to get back to the matter we will ask—

Mr. CHOQUETTE: So you are not anticipating a new policy for the distribution of—

Mr. MARTINEAU: We have never discussed the matter.

Mr. CHOQUETTE: It was never considered.

The VICE-CHAIRMAN: Mr. Grégoire.

Mr. GRÉGOIRE: Mr. Martineau or Mr. Trueman I have a few questions concerning applications you receive for grants for the arts, either for music, opera, acting, ballet, festivals etc. I suppose that out of all the applications you receive for grants some meet with your approval and others are not even worth taking into consideration or are for things you do not give grants for. Could you tell us what percentage of the applications you receive during any one year are reasonable requests and how many are not?

Mr. MARTINEAU: Well, in 1963-64, for example, I think there were 365 applications in an arts category.

Mr. GRÉGOIRE: They were applications for grants for the arts and public events?

Mr. MARTINEAU: Yes. The arts and artists. For the time being the percentage is the same but if you will wait a minute you will see. 365 applications were made. We only had so much money to spend, so we had to divide the amount among the various categories. So that year we decided there would be 60 grants. There was not enough money for more. So 60 awards were made but there were 365 applicants. They had to be made to people who had 86% or over, which shows that some were deserving and should have received one because when you have 80, 82, 83 or 84, those are worthwhile marks, you are really entitled to a scholarship. But it was not possible to give them. So there were only 60 given.

Mr. GRÉGOIRE: In other words you lacked the funds to—

Mr. MARTINEAU: We were positively short of funds—

Mr. GRÉGOIRE: Even to meet reasonable requests.

Mr. MARTINEAU: Certainly, very deserving requests.

Mr. GRÉGOIRE: In the arts?

Mr. MARTINEAU: Yes.

Mr. GRÉGOIRE: But where organizations are concerned?

Mr. MARTINEAU: The same thing happened.

Mr. GRÉGOIRE: The same percentage.

Mr. MARTINEAU: The same.

Mr. GRÉGOIRE: For instance, I see that you make grants to several symphony orchestras throughout the country. What is the percentage of symphony orchestras you can give grants to, symphony orchestras already in existence who have applied to you.

Mr. MARTINEAU: Mr. Dwyer.

Mr. DWYER: At the present time there are approximately 20 symphony orchestras in Canada.

Mr. GRÉGOIRE: Twenty-five?

Mr. DWYER: About twenty. That is the number of grants we can give.

Mr. MARTINEAU: You see, Mr. Grégoire, that is the problem, what are we to do with so little money? Should we spread it out so thinly that it will be of no advantage to anyone, or should we try to select wisely in order to develop something really exceptional in certain ways?

Mr. GRÉGOIRE: So you prefer to give grants to a fewer number of symphony orchestras, but to give them more so that they can develop more.

Mr. MARTINEAU: Not purposely. We have not adopted that principle purposely. We have tried to give as much as possible to all those who were deserving but we were not able to help all those—

Mr. GRÉGOIRE: But in principle, nevertheless, the results of your grants to the symphony organizations is to give them more, so that they can improve and be better than they are.

Mr. MARTINEAU: If possible.

Mr. GRÉGOIRE: Did you make a survey, would your terms of reference allow you to make a survey to find out how many symphony orchestras there are, and how many symphony orchestras there should be in Canada and what amount of money it would take to set up a network, if I may call it that, of symphony orchestras that would really correspond to the artistic value of our musicians and to public demand.

Mr. MARTINEAU: We studied the matter to see how much we would really need to do justice to all these organizations and to our artists. If we really wanted to make an all-out effort that would cover the entire country, we would need over two million a year during the next three years, about \$2,200,000 a year.

Mr. GRÉGOIRE: Now, with \$2,200,000, which is a very small amount in my opinion, would that meet the needs of both the artists and the organizations, I mean strictly as far as the arts are concerned?

Mr. MARTINEAU: I think so. Of course that does not mean that all those who applied for grants would get them.

Mr. GRÉGOIRE: No. But there are reasonable requests and unreasonable requests.

Mr. MARTINEAU: Any reasonable request, any work that deserves encouragement, any artist who is talented and has proved it, could obtain a grant.

Mr. GRÉGOIRE: Now, with an amount like that, would that be satisfactory? For example, I am taking the symphony orchestras, I could also take the opera, the theatrical and ballet companies, would that amount be satisfactory to set up in Canada, in proportion to the population, the areas and the cities in need of it, would that be sufficient to set up an adequate network?

Mr. MARTINEAU: I would point out that we have been more than reasonable with our figures, because when you do not have it and when you do not have much hope of getting it, you live in hope but you are not sure, and you do not want to put forward figures that will scare people. I myself am quite sure, but it takes more than that.

Mr. GRÉGOIRE: As far as I am concerned, Mr. Martineau, I can tell you that I am not in the least bit scared when you tell me that with only \$2,200,000 you could meet the requests you receive from artists—

Mr. MARTINEAU: The average request, yes, during the next three years.

Mr. CHOQUETTE: Are you including bands in this request?

Mr. MARTINEAU: Not yet, Mr. Choquette, not yet.

Mr. GRÉGOIRE: I asked whether at the present time, in the field of the arts—

Mr. MARTINEAU: Yes.

Mr. GRÉGOIRE:—in the field of our theatre, opera, ballet and symphony orchestra groups—

Mr. MARTINEAU: That is right.

Mr. GRÉGOIRE: And you include the artists in that amount?

Mr. MARTINEAU: Yes, certainly. What is more we are including scholarships for students in that amount—

Mr. GRÉGOIRE: For students or people who have shown that—

Mr. MARTINEAU: —to get their doctor's degree and also for post-doctoral studies.

Mr. GRÉGOIRE: When you speak of post-doctoral studies you mean those who are going in for teaching careers?

Mr. MARTINEAU: Yes, for those who are going in for teaching or who want to study, who want to continue their studies after that.

Mr. GRÉGOIRE: Now, how much are you giving at the present time in that field alone? In the field you mentioned and for which you would need \$2,200,000, that is, simply from the artistic, theatrical, musical, operatic and symphonic standpoint.

Mr. MARTINEAU: For that, it is \$675,000.

Mr. GRÉGOIRE: That is the amount you are allocating at the present time?

Mr. MARTINEAU: Yes.

Mr. GRÉGOIRE: And you need \$2,200,000?

Mr. MARTINEAU: No, you merely mentioned symphony orchestras, theatres, ballet and opera.

Mr. GRÉGOIRE: Yes.

Mr. MARTINEAU: \$675,000, for that alone.

Mr. GRÉGOIRE: \$675,000.

Mr. MARTINEAU: We think we shall need \$1,675,000 within the next three years. We need a million dollars more.

Mr. GRÉGOIRE: In that field alone.

Mr. MARTINEAU: Because that is the expensive one, of course.

Mr. CHOQUETTE: It is one of the most expensive—

Mr. GRÉGOIRE: So with \$1,000,000 more a year?

Mr. MARTINEAU: Yes.

Mr. GRÉGOIRE: Now, could you submit a brief on what you would be able to do with an additional million dollars?

Mr. MARTINEAU: We submitted a brief to the minister setting out our requirements and explaining what we could do if we had more money but we understand the country has a deficit and—

Mr. CHOQUETTE: But it is a deficit for agriculture, Mr. Martineau.

Mr. GRÉGOIRE: There is no comparison between a financial deficit and one in the artistic field.

Mr. MARTINEAU: No, of course not.

Mr. GRÉGOIRE: Now, where opera is concerned, for example, those you give grants to, you only give grants to one opera company, the Canadian Opera Company, and you give them \$71,000 a year.

Mr. MARTINEAU: Are there any other companies?

Mr. GRÉGOIRE: With \$71,000 and their own income, which they may get from a provincial grant, the sale of tickets, can they give several, how many—

Mr. DWYER: The Canadian Opera Company has opera seasons in Toronto that last three weeks, they send two companies on the road. It is a national organization.

Mr. GRÉGOIRE: Have other opera companies applied?

Mr. MARTINEAU: I do not think so, no.

Mr. DWYER: Yes we have made grants to the opera—

The VICE-CHAIRMAN: Could you speak up Mr. Dwyer as you are far from the microphone and we cannot hear you properly. We cannot hear you.

Mr. DWYER: There is an opera company in Vancouver to whom we have made grants, up to \$10,000 I think; a company is being formed in Edmonton, there is the Théâtre Lyrique de Nouvelle-France in Quebec, and we understand there is to be a company in Montreal.

Mr. GRÉGOIRE: Now, in Quebec, the Théâtre Lyrique de Nouvelle-France, did you give them a grant last year?

Mr. DWYER: No. We did not give that company a grant.

Mr. GRÉGOIRE: A shortage of funds.

Mr. DWYER: A shortage of funds and for other—

Mr. GRÉGOIRE: That is a shame, they are one of the finest companies you can hear.

Mr. CHOQUETTE: I have a supplementary question.

The VICE-CHAIRMAN: Well, for the sake of good order—a supplementary question, very well.

Mr. CHOQUETTE: I have a very high regard for Mr. Grégoire's knowledge because he has been an impresario.

Mr. GRÉGOIRE: I would like to say, Mr. Chairman, just to get things straight, I was not necessarily an impresario but when I was student at Laval University I was chairman of the Concert Association of the University for six years.

Mr. CHOQUETTE: Mr. Chairman, regarding scholarships or grants made to opera companies, on what basis do you distribute them?

Mr. MARTINEAU: Those who are versed in these matters, the judges hear, see and decide. Perhaps if I heard them I would have my own opinion, maybe if you heard them you would have a different opinion. Anyway, the judges decide as best they can.

Mr. CHOQUETTE: They decide as best they can and we follow what they say.

Mr. GRÉGOIRE: The judges are specially appointed for the job. They are people who are familiar with these matters and are chosen because of the knowledge they have.

The VICE-CHAIRMAN: Mr. Rondeau, please.

Mr. GRÉGOIRE: Have I finished my questions?

The VICE-CHAIRMAN: I thought you had finished. Very well.

Mr. GRÉGOIRE: This is a supplementary question. I am pleased to let my friend Mr. Choquette ask some questions as he is also interested in these matters. I have a question that is complementary to Mr. Choquette's. When you establish a basis for an opera company, is it according to the number of performances and the vocal, musical and—

Mr. MARTINEAU: Mr. Dwyer.

Mr. DWYER: It is certainly based on those two facts and also on the need.

Mr. GRÉGOIRE: Also on the need?

Mr. DWYER: On the financial need.

Mr. GRÉGOIRE: Now, in the case of the Théâtre Lyrique de Nouvelle-France, for example, did some of the judges go and hear the company?

Mr. DWYER: Yes. We consulted our experts, and at a meeting in Quebec the Council went to see *Les Pêcheurs de Perles*. So we are well informed on developments there.

Mr. GRÉGOIRE: It was very good.

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. GRÉGOIRE: Mr. Chairman I trust you will allow me to ask a few questions?

The VICE-CHAIRMAN: Certainly. As you will have noticed, we have already allowed you to ask several questions.

Mr. GRÉGOIRE: Yes, but I noticed that you were trying to get us onto another subject.

The VICE-CHAIRMAN: Well I was wondering whether the committee wishes to sit to-night.

Mr. GRÉGOIRE: It would be better to get it all done in one day so as not to detain them.

The VICE-CHAIRMAN: It would be preferable if we could finish to-night at 6. These gentlemen waited a whole morning.

Mr. GRÉGOIRE: Then we shall try to finish by 6; I would like to help them in that respect. I would like to have a copy of the brief you submitted to the Secretary of State. That is the brief in which you mention—

Mr. MARTINEAU: It is the one you have there.

The VICE-CHAIRMAN: 1963.

Mr. GRÉGOIRE: That is the brief in which you mention all the amounts you would need to meet, let us say adequately, the needs, to establish in Canada—

Mr. MARTINEAU: Just a minute. I have not looked at it for some time.

Mr. GRÉGOIRE: As you know, Mr. Chairman, I apologize but we receive briefs like that about twice a month.

Mr. MARTINEAU: Yes. I understand.

Mr. GRÉGOIRE: But I look at those first, of course.

Mr. MARTINEAU: Here we are, it is on the first page, after "Brief to the Government of Canada" it is at the beginning of the page. Have you got it?

Mr. GRÉGOIRE: Yes.

Mr. MARTINEAU: At the beginning of the page. You see the set-up of the Council, scholarships and fellowships etc., research, local studies and programmes. We were asking for \$10,000,000.

Mr. GRÉGOIRE: Ten million dollars.

Mr. MARTINEAU: Ten million dollars. Then \$10,000,000 a year for two further years. We believe—

Mr. GRÉGOIRE: Ten million dollars, that was not for the fund—

Mr. MARTINEAU: No, not the university fund.

Mr. GRÉGOIRE: No, not at all.

Mr. MARTINEAU: It is in the endowment fund, \$30,000,000. Ten million dollars a year for three years.

Mr. GRÉGOIRE: So that you are sure of getting the interest you need?

Mr. MARTINEAU: Yes. If the \$10,000,000 were invested it would bring in about \$2,220,000 and that would enable us to take care of these needs.

We thought that \$10,000,000 a year for three years was not excessive. As you know, Mr. Grégoire, when that amount of \$50,000,000 was allocated to the Council in 1957 it was worth a lot more than it is now. The income was worth more than it is to-day, because there was less demand. Since that time, as you know, there has been a tremendous amount of activity in the arts in Canada. So applications of all kinds have multiplied, and particularly applications for scholarships. The number of students has increased all over Canada, and so has the number of applications for scholarships. That is why as the years pass we are less and less able to meet demands.

Mr. GRÉGOIRE: Now, Mr. Martineau, even though the Canada Council is involved, do you think it would be a good thing to ask not only the federal government but all the provinces to try and contribute to that fund if the Council had a plan to set up a vast cultural and artistic network? I mean in the field of the arts only, throughout the country.

Mr. MARTINEAU: Well . . .

Mr. GRÉGOIRE: Because, of course, in that field Prince Edward Island for example, would not be able to subsidize a large auditorium for operas or symphony orchestras when they can receive visiting companies from other provinces.

Mr. MARTINEAU: That is what we want. For instance, if Halifax had a very good symphony orchestra it could go to St. John's, Newfoundland, and to New Brunswick. It could cover all the eastern area of the country. All that is needed is to have a good orchestra and to give them the money so that they can travel. It would be better than having two or three that are no good.

Mr. GRÉGOIRE: Do you intend to ask the provinces to contribute too?

Mr. MARTINEAU: Well, several of them, Quebec among others, have their own arts councils. Even the city of Montreal has an arts council. But as a matter of fact I must say that we are getting information, we are working with them to some extent, we want to know what they are doing, and we tell them what we are doing.

Mr. GRÉGOIRE: You have an understanding?

Mr. MARTINEAU: We do not want to increase the number of grants and if an organization has received a sufficient amount from the province, we do not add to it unless the need is felt. But if the need is felt then we add to the amount.

The VICE-CHAIRMAN: Mr. Grégoire, the questions you are asking really relate to the Canada Council's future policy.

Mr. GRÉGOIRE: Or their present policy, Mr. Chairman.

The VICE-CHAIRMAN: What we are discussing just now . . .

Mr. GRÉGOIRE: I say we do not have enough.

The VICE-CHAIRMAN: At the present time we are discussing the 1961-62 and 1962-63 reports. If we are going to sit tonight we should be told now, and if we are not going to sit tonight the other members of the committee should be given a chance to ask a few questions.

Mr. GRÉGOIRE: I have finished, Mr. Chairman. I only have one question left because I must tell you that where the Canada Council is concerned I am far more concerned about results than about figures. As far as their figures are concerned I trust them, but as regards results if we can help them to develop it would be better still.

Now, here is my final question. Have the Canada Council made a survey let us say in other countries, to learn about the situation there and to find out whether the situation is adequate in Canada where the arts are concerned a compared with other, perhaps more advanced countries?

Mr. DWYER: I might mention, Mr. Grégoire, that I was sent over to England and to France last year to see what the Arts Council of Great Britain was doing, and also to see the minister of cultural affairs in France, Mr. Malraux. At the present time, if I may express my opinion, Canada certainly does not have sufficient funds to meet the needs of artists or to make the most of opportunities that exist at the present time.

When you think that, according to what Mr. Biasini of the French Department of Cultural Affairs told me, the French government grants the Opéra and the Opéra Comique \$5,500,000 a year which is more than five times the amount available to us for all the arts throughout the country.

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. GRÉGOIRE: So it is not surprising that our Canadian artists should be hired by foreign companies.

Mr. DWYER: As you say, it is not surprising.

The VICE-CHAIRMAN: Mr. Rondeau.

Mr. RONDEAU: Mr. Chairman, to continue along the same lines, if I understood rightly, you granted 60 scholarships as against 365 applications. Am I right?

Mr. MARTINEAU: Yes, that is correct.

Mr. RONDEAU: Which means that approximately 17% of the scholarships were granted to those who applied?

Mr. MARTINEAU: That is correct.

Mr. RONDEAU: I have not read all these reports, but I did not see these figures in those I did read.

Mr. MARTINEAU: No. They are not there. They are in a report we received recently from the President of the Canada Foundation who studies and judges applications for us. The Canada Foundation prepared a report stating: "We have studied the applications and recommend as follows". Unfortunately it was not possible to choose a larger number because there were only 60 scholarships.

Mr. RONDEAU: For the committee's information, Mr. Chairman, that is precisely the point. It is all very well to tell us, we have done such and such a thing but there are so many things we could have been doing but were not able to because we had no money. So they are figures and statistics that would certainly be of interest to the committee, and it would be useful to have the report. The number of scholarships awarded by province should also be indicated in the report for future reference, if possible. And, for our own information, the scholarships granted by university should be given in the reports, to the university of Montreal, for example, saying they will get so much in scholarships, and then divide it by province.

The VICE-CHAIRMAN: The question of getting the scholarships by province has already been submitted, and will be submitted to the sub-committee.

Mr. RONDEAU: If the members of the committee are agreed, I would also like the report to contain an explanation of the procedure candidates for scholarships have to follow, and of your policy for such grants, which you have explained to some extent this afternoon.

Mr. MARTINEAU: The way we proceed in general. Just the general principle. I think that is all we have—

Mr. DWYER: The general principle is to grant scholarships for the quality of the artists, and also, and this is very important, so that they correspond to their projects. Because now and again very talented artists have something irrational in mind which wise people consider is not good for them. Now, applications are submitted to the Council on six forms which are sent to the five judges of the Canada Foundation who study the application, the quality,

and the artist. The forms are sent back with the marks of each applicant, and then it is possible to form a committee to arrive at a final decision.

(Text)

The VICE-CHAIRMAN: Would you proceed now, Mr. Francis?

Mr. FRANCIS: Mr. Chairman, I wanted to ask some questions which are supplementary to those put by Mr. Pigeon awhile ago.

I gather that Mr. Fullerton is now in private consultation. I know he was with Canada Council before that, and before that he was with the Department of Finance. But, looking at one section of the reserves it seems to me there is a reserve, as I understand it, of \$3,270,000, which arises out of transactions on common stock and so on, and bonds as well. It seems to me this is a very good record. Is there any way, Mr. Fullerton, in which you can indicate to the committee any comparable institution or use any other yardstick you have in mind which would compare the returns you have realized through the management of these accounts with other institutions?

Mr. DOUGLAS H. FULLERTON (*Investment Consultant*): You have asked me to make comparisons. We want to carry on as active a policy as possible, and I expect our return is as good as you will find around except in terms of those people who specialize entirely in common stock and who make substantial capital gains in common stock. The Canada Council fund is a balanced fund. Emphasis is on income as required, and they do not plunge as much in common stocks as they would like to. But, in terms of a balanced fund, I would say our record is as good as any.

Mr. FRANCIS: Do you have any views about this kind of a reserve? Should it be accumulated indefinitely as a result of capital gains essentially or at some point should part of the reserve be taken into income? What kind of policy is it intended to follow?

Mr. FULLERTON: There is a technical problem, first of all, whether or not we spend capital gains. I believe the Auditor General believes that capital gains must be plowed back into the corpus of the fund.

Mr. MARTINEAU: That is the way they have been treated.

Mr. FRANCIS: But the interest on the capital gain is available for expenditure in the current year, is it?

Mr. FULLERTON: Yes, and it has given us a steady rise in income each year as a result of plowing the profits back.

Mr. MARTINEAU: As a matter of fact, because of those gains the income has grown about \$65,000 a year.

Mr. FRANCIS: I am full of admiration for that. I am not being critical. It is an excellent record.

I have another set of questions which I want to put on the record in amplification of Mr. Wahn's questions.

Mr. Fullerton, you are not a principal yourself or an underwriter and you are not deriving benefits in any other way than in your professional field in respect of this fund and, I understand, you are providing the same service to other funds. Would you want to indicate to the committee the nature of the other types of funds you serve or clarify this relationship so that there is no question about it.

Mr. FULLERTON: There are some pension funds and insurance funds, and the employers are in the same capacity in relation to us as the council is, and on some a different advisory basis.

Mr. FRANCIS: It was indicated by Mr. Pigeon there are other crown corporations—I think that was his expression—which had similar amounts of funds at their disposal and he recommended perhaps a central agent within

the framework of some government department. Are there any other crown or government agencies which has a problem like this? I was not aware there was.

Mr. FULLERTON: Well, there is the pension fund, Central Mortgage and Housing, the Bank of Canada pension fund, and the Canadian National.

Mr. HENDERSON: And, the Canadian Broadcasting Corporation.

Mr. FRANCIS: These are the other funds which do have investments?

Mr. FULLERTON: Yes.

Mr. FRANCIS: I would like to go on record as saying I think this arrangement is a good one, and I think the record of the management of the fund is one that compares favourably with any other within my own knowledge and experience.

(Translation)

Mr. PIGEON: I have three short questions, Mr. Chairman, but first of all I wonder if Mr. Martineau could tell me what amounts the Grands Ballets Canadiens of Montreal and the National Ballet of Toronto received in 1962?

Mr. MARTINEAU: In what year, 1962 or 1963?

Mr. PIGEON: At the beginning of May 1962.

Mr. GRÉGOIRE: \$40,000 and \$85,000 according to the report.

Mr. MARTINEAU: The Grands Ballets—

Mr. PIGEON: Never mind, Mr. Chairman do not trouble to look. The reason I asked that question was that at the legislative assembly held at the beginning of May 1962 Mr. Lapalme, minister of Cultural Affairs in Quebec attacked the Canada Council quite violently and even stated that the Grands Ballet Canadiens of Montreal had not been favoured to the same extent as the Toronto Ballet Company by the Canada Council.

The VICE-CHAIRMAN: What Mr. Lapalme may have said has nothing to do with this committee. The member wants to give himself a lot of importance in Quebec. If your questions and answers could be shorter we might discuss.

Mr. PIGEON: I will proceed. Under the investments here, I refer to the financial report of July 26, 1963, the Canada Council invested money in bonds and debentures guaranteed by the government of Canada, invested money in the provinces guaranteed by the provinces and municipalities, in companies and in private enterprise. In the report for 1962-63, at the end of the report, for instance I see details of the investments they made. I see that the Canada Council—through the said firm who receive a fee of \$15,000 a year—invested in the Bell Telephone, in Imperial Oil, in the Texaco Company (Canada) Limited,—

(Text)

Mr. FISHER: Quebec hydro.

(Translation)

Mr. PIGEON: —in Aluminum Limited, in International Nickel Limited. The companies I have just mentioned are controlled by foreign capital. On the other hand there are other companies which are essentially Canadian-owned. And I wonder whether it would not be a good thing, whether it would not be in Canada's interest, that the Canada Council investments—I do not know whether this would amount to discrimination—be made mainly in companies controlled by Canadians. It would encourage Canadian companies it seems to me.

Mr. FARIBAULT: Mr. Chairman, the first company you mentioned, the Bell Telephone, is 96% Canadian-controlled.

Mr. PIGEON: They are not controlled by American Telephone?

Mr. FARIBAUT: Not at all, American Telephone do not even have 5% of the shares, they only have about 2%.

Mr. CHOQUETTE: Did you not know that Mr. Pigeon wants to nationalize the Bell Telephone.

Mr. FARIBAUT: I was not aware of that, but it makes no difference.

Mr. PIGEON: But the Aluminum Company and International Nickel.

Mr. GRÉGOIRE: Aluminum and Nickel are in my riding, do not touch them.

Mr. PIGEON: I am just asking a question.

Mr. FARIBAUT: It is difficult for administrators who are, of course, supposed to realize what gilt-edged stock they have in their investment portfolio, to answer a question like that.

Mr. PIGEON: Thank you Mr. Faribault. I have one last question for Mr. Bussière. The Canada Council awarded, I think it was \$2,000, to help finance work directed by Mr. Leopold Lamontagne, a professor of the faculty of letters of Laval University.

Mr. BUSSIÈRE: Could you tell me a little more about that?

Mr. PIGEON: The Canada Council decided to support an ambitious project, namely, a general history of French Canadian literature from its beginnings to the present time. The work will comprise three volumes of approximately 300 pages each, and Mr. Leopold Lamontagne, a professor at the faculty of letters of Laval University will be in charge of editing the work. I just wanted to ask you a fairly direct question. Did any minister of the Crown intervene by 'phone or by any other means, to help get that \$2,000 grant?

The VICE-CHAIRMAN: That question is out of order. It is out of order, and you do not have to answer it.

Mr. GRÉGOIRE: Mr. Chairman, I think you should allow Mr. Bussière to answer it because he could then establish the facts, that is, the facts that need establishing.

Mr. BUSSIÈRE: The answer is no. Also, the Council never intervened to put Mr. Lamontagne at the head of the project. It was the committee who put Mr. Lamontagne in charge of the project, and all we did was to make a grant so that the project itself could be carried out.

Mr. PIGEON: Thank you. That clears up an ambiguous situation.

Mr. CHOQUETTE: Do you know Mr. Lamontagne? Do you consider him sufficiently competent to carry out the task he has been given.

Mr. BUSSIÈRE: Certainly.

Mr. CHOQUETTE: Thank you.

(Text)

Mr. FISHER: I have now seen very little indication that the council, with this very large donation in the field of engineering and medical sciences, and so on, is conscious of the fact that it was not really the intent of the legislation nor of the speeches that were given at the time the council was created. I think in your brief to the government you are arguing that the ration that you have to devote to the arts, and in particular to the social sciences, is inadequate as compared to what the National Research Council administers in the other field. I think it is rather bizarre that the first large and substantial donation you get should be in a field in which your main competence and your main jurisdiction were not considered to run.

Again, when you begin to consider what it is leading you into in terms of an administrative overlap with some of the things that the N.R.C. has done,

I wonder if the council has given any general consideration to the problem that is involved here. As a matter of fact, it may be a matter of pride that the council received the donation and that it has been set up in this way, but it is really an immensely disappointing reflection of what is resulting in the field of arts and natural sciences when the first great donor that comes along specifically allocates a large sum to a field in which the council is not supposed to be involved. I would just like your comments on this.

Mr. TRUEMAN: Are you criticizing the council or are you criticizing the anonymous donor?

Mr. FISHER: Neither, but what is it getting you into?

Mr. TRUEMAN: It is not getting us into anything. I do not imagine for one minute there is going to be a flood of donations for engineering, medicine and science in such a proportion that it could possibly embarrass us in this connection. I agree with you that the main intent and purpose of the Canada Council are certainly the arts, the humanities and social sciences, though obviously there has been a reservation in the minds of the framers of the act because, as you know, there is a section which says that we may accept gifts as long as they are not part of the permanent endowment fund or the university capital grants fund for the purposes named by donor, if any. So the way is open. In a sense it is disappointing.

On the other hand, the council felt it was, in one sense, the first significant breakthrough we have had. This was the first time that real money had got interested in the Canada Council. We have had a succession of small gifts for specific purposes. Now, no one could prove any connection with it, but the next year we got \$600,000 in another donation, and one is hoping that this happy demonstration of the possibility of giving money in large proportions to the council will catch on. To that extent I think the first big gift has some virtue.

Mr. FISHER: Is the anonymity of the donor permanent?

Mr. TRUEMAN: There has been no indication to us that we should let the name get out.

Mr. FISHER: This is not what I wanted to know. I think the Molson award being out in the open and named is a challenge to other companies and to other persons, and it is too bad that the anonymous donor would not stand forth.

Mr. TRUEMAN: Yes, that is true.

Mr. FISHER: The next question I want to ask is whether you worked out any appreciation of the provincial efforts in the field in which you are working, and the role that you may be able to play in advising and co-ordinating some of these efforts?

Mr. TRUEMAN: We have given whatever co-operation we could, and made whatever study we could, of the existing organizations. For instance, we laid on, with the Montreal city arts council and with the department of cultural affairs in Quebec, a meeting in which we discussed our common problems, and we set up a loose arrangement whereby we try to keep each other informed about applications that we know we all were having and are all considering and to try not to step on each other's toes and to work out a *modus vivendi* that would be comfortable and fair. Since that time, of course, the province of Ontario has set up the provincial arts council of Ontario. They did not start this with huge sums of money, it was something like \$350,000. Their first step was to ask us for advice about practical matters and about policies. Mr. Dwyer went up and spoke to them.

Then again we have had a meeting with them and tried to work out an understanding whereby it would be agreed that some things were probably definitely provincial, and some things were probably definitely national, and

would be our concern, while other things were the concern of both. Recently I discussed this matter in Vancouver with people there who would like to persuade the province and the city to take greater part.

Mr. FISHER: Have you any proposal for a definition on paper?

Mr. TRUEMAN: No.

Mr. FISHER: We have indications that this government is not so much considering a cultural ministry but in effect they have put the cultural agencies under one minister. Is it your opinion we are at a stage where some kind of a federal-provincial conference on the whole question of the arts and the relationship to what the provincial and the federal agencies can do in this field is upon us?

The VICE-CHAIRMAN: This is a question on the future policies of the council. I do not think it is in order at this time.

Mr. FISHER: I would like to point out to you there is a tradition that this is a committee in which we can ask questions ranging over a wide field upon the activities of the Canada Council. This is somewhat different from any other agency that comes before this public accounts committee.

The VICE-CHAIRMAN: Is it not that widely ranging questions can be asked provided the subject matter appears in the 1962-63 report which we are in the process of studying now?

Mr. FISHER: It has been our experience in the past. For example, I remember Mr. Pigeon, I think it was the first time we had the Canada Council before us, brought up some of the questions which he brought up today about the future policies.

The VICE-CHAIRMAN: Quoting Mr. Pigeon does not establish a rule.

Mr. PIGEON: On a point of order, Mr. Chairman, on what article do you base your judgment or your rule? I want to know if you are competent or not.

The VICE-CHAIRMAN: I do not have to have a rule on that.

Mr. PIGEON: Please withdraw your remark. It is my right to address a question. If it is out of order, you can decide, but I do not like the kind of remark you placed before the committee.

The VICE-CHAIRMAN: If you will sit down, we will let Mr. Fisher finish.

Mr. PIGEON: You are too proud to be Chairman of this committee and the best thing is to resign.

Some hon. MEMBERS: No, no.

Mr. PIGEON: Yes. I have the same rights as others.

(Translation)

Mr. GRÉGOIRE: Mr. Chairman, I think you should nevertheless withdraw your remark. You made it jokingly no doubt, but I think you should withdraw your remark.

(Text)

The VICE-CHAIRMAN: I said that what Mr. Pigeon said does not establish a thing as being right, or a rule.

(Translation)

Mr. PIGEON: Then withdraw what you said.

(Text)

The VICE-CHAIRMAN: Go ahead, Mr. Fisher.

(Translation)

Mr. PIGEON: I have a motion on a question of privilege, Mr. Chairman. I am making my motion immediately and I would ask the honourable member

in the chair to be more polite. I am a member of the house and I am entitled to ask a question. If my question is out of order you are entitled to declare it out of order on the basis of the rules of procedure of the house.

The VICE-CHAIRMAN: I was not polite enough, henceforth I will endeavour to be.

Mr. PIGEON: That is fine.

The VICE-CHAIRMAN: Are you satisfied?

Mr. PIGEON: I am satisfied.

(Text)

Mr. Fisher?

Mr. TRUEMAN: I think I can answer in a general way. I cannot answer as giving you the standard considered opinion of the Canada Council as emerging from a debate. However, I think what you suggest is perfectly rational. You have the Quebec thing which has been going for some time and the Ontario council which is being formed, and there are some rudimentary—if I may use that word—organizations in Saskatchewan. People are asking questions in Vancouver. Clearly, I think it would be to the advantage of the whole situation if someone—and I do not say who—would say that perhaps we ought to make a study of the roles which the federal, provincial, and perhaps municipal governments ought to play in this. Whether there should be a conference which somebody should sponsor, I would not like to say.

Mr. FISHER: I notice you assisted a number of other conferences, and I would think this one might be worth while.

Mr. TRUEMAN: This is not just a matter of the arts and social sciences; this is a matter which gets into the field of government and municipalities; it is not our field.

Mr. FISHER: Then, perhaps again the minister should take the initiative. I am very much bothered by your decision to drop the scholarships for teachers.

Mr. TRUEMAN: We have not dropped them.

Mr. FISHER: The indication is that you have.

Mr. TRUEMAN: Would you like an explanation of that?

Mr. FISHER: Yes.

Mr. TRUEMAN: In the first place, this category was established by the council in the hope that it would provide an opportunity for a high school teacher to have a refreshment year. We were not thinking of people getting their Ph.D.'s, but rather people who had been teaching for years and who would benefit by a year at college in subjects they had been teaching. It would be an excellent thing to brush the hayseed out of their hair; but it did not work out in that way. It was never a very satisfactory category. The number of applications was low, and quite frankly the quality of the applicants did not seem to compare to the quality of other applicants. Then, we found it was being used by people who wanted to get an M.A. degree, or a Ph.D. degree. So, we reduced this to people who had at least three years' experience and who were proceeding to an M.A. degree. This did not improve it. As you know, we are running one category for people who want the M.A. and one for the Ph.D. degree; so, we said, let us drop this and steer the people into the other category.

Mr. FISHER: One of the things which seems to be noticeable is the ratio of applications to the number of awards; this is worsening from the point of view of the applicant.

Mr. TRUEMAN: In category 2 we have tried to bring that up. I guess perhaps the ratio has gone down a little in category 2. We had to cut down on the pre-M.A. one because we had to put our money in category 2.

Mr. FISHER: I think if there was any criticism I would make about the awards, it is really in the field of publications, because the amount of money you give to publications which you assist is given to publications which are in the typical Canadian predicament of being semicommercial. I wonder whether you have written down anywhere, or whether you could provide any kind of general memorandum on your policy in this regard?

Mr. TRUUMAN: You mean in respect of periodicals?

Mr. FISHER: Periodicals and some of these one-shot publications. I am very much bothered by the grant which you gave to the Canadian Annual Review, because as it came out I looked on it mainly as being little party propaganda. That happens to be my particular bias; but I would like to know sort of the framework in which you operate in making these awards to publications.

Mr. TRUUMAN: For periodicals—which I gather is not your principal concern—we have a stated policy within which we try to operate. The council will consider assistance only to non-profit periodicals which give evidence of viability and have subsisted on their own for two years with a minimum of eight issues. In other words, we are not starting these magazines. The forms of assistance from the council could be: a grant to assist a publication; a grant to assist in publication of extra copies; and, purchase by the council of copies for distribution, if that were the case.

These regulations will include assistance in approved cases to non-profit learned journals published by associations of scholars in which membership is either national or widely representative of one or other of the two languages, French and English; periodicals in the area of the humanities and social sciences including literature, not published by the types of associations indicated in the preceding paragraph, but performing services which ought to be recognized. This will include literary periodicals of high quality and permanent interest providing a valuable outlet for Canadian writers; journals dealing with the arts.

We cannot support university quarterlies, journals published by a faculty or department of a university, bulletins of societies which are receiving assistance from the Canada Council, house organs, periodicals established for hobbyists, or periodicals published by governments. That covers this.

So far as other publications are concerned, such as learned books, this is a case of reading them as we see them, and considering the individual application. We send French manuscripts out to a French jury and English manuscripts to an English jury; these are accomplished people who know our act and know our purpose. They give their opinion with regard to whether or not the work merits the support of the Canada Council. We have not tried to enter the field of very learned works on economics as opposed to sociology, or anything like that. We have tried to take the individual case and consider it on its merits.

We have made block grants, which is a thing the council very seldom does, to both the humanities research council and the social science research council for the publication of learned works. At the end of the year, we require those two organizations to give us a full accounting of the manuscripts which they have published, the name of the author and the jury which guaranteed them, and if this is not proven satisfactorily to us, then we can cease the grant or cut it.

Mr. FISHER: My last point is that I notice there has been criticism in the press in two different places of the benevolent press for distinguished Canadian writers. As I remember this, the money for this was in some part given by the vote in the estimates of the government, and is now taken up by you. I have no objection or criticism of it, but I would like to know whether this is going to develop into a long term proposition, or sort of a continuing

proposition which may grow, or whether this is really a situation which seems to be present at this time because of the age and previous unprofitability of writing in this country?

Mr. TRUEMAN: It is a little hard to answer that with complete clarity. I will say, by way of introduction, that when the council was formed, if my memory serves me correctly, this is the only grant that the government of this country suggested we might take off its hands.

I believe the grant had been going through the Department of Citizenship and Immigration to this organization, The Canadian Writers' Foundation, and while there was no contractual agreement, of course, there was a sort of tacit understanding that the government grant would match the amount of money which the foundation itself would be able to raise by subscription and campaigns, which was in the vicinity of \$6,000. We were criticized for taking part in what looked to the writer of this letter to be a purely humanitarian exercise.

I took the trouble to check with the secretary of the Canadian Writers' Foundation, and I made a suggestion to her. I said: "If this is purely an humanitarian exercise maybe this man has a point. We do not engage in purely humanitarian things. But it was my understanding that at least most of the writers supported were still active writers, and that this money was helping them not only to live, but also to have the time and freedom in their more advanced years in which to continue writing."

The secretary sent me back a list of 13 or 14 people who were supported, and with one exception, that of a man who was ill, every single one was pretty actively engaged in writing. How far this will continue, I do not know. It is the only thing which we have that approaches the civil list that they have in Britain but which we do not have. Whether it will fasten itself on to us with tentacles, I cannot say.

Mr. FISHER: So long as it remains under \$8,000, it will not matter.

Mr. TRUEMAN: It will not hurt us.

Mr. RYAN: What strings, if any, were attached to Miss Terrell's gift of Stanley House that she made to the council?

Mr. TRUEMAN: There were no strings whatsoever. It was an outright gift to the council to be used for whatever purposes we saw fit. There were no strings attached.

Mr. RYAN: You intend to keep it, because I see at page 5 of the Auditor General's 1963 report, in the second paragraph you say: "Property expenses of \$3,912 were incurred for the first time during the year under review and consisted mainly of expenses (which will be of a recurring nature) for the maintenance and upkeep of Stanley House, New Richmond, Province of Quebec, which was donated to the council in the previous year."

Why is it that you would have expenses of this order in maintaining the house?

Mr. MARTINEAU: Perhaps Mr. Bussière will answer you.

Mr. BUSSIÈRE: This was the first year, and we found that we had quite a lot of repairs to make, such as to the roof, with the painting of the whole house, and with furnishings to be added; plumbing, adding an electric stove, a refrigerator, and so on. This added to the normal current operating expenditure, to this extent. We have budgeted approximately \$17,000 for the annual operation of Stanley House which should provide for travelling expenses of various groups meeting there during the summer months.

Mr. RYAN: Is it to be open only in summer?

Mr. BUSSIÈRE: Yes, it is a summer residence.

Mr. RYAN: I see that the Auditor General in exhibit I has put in an item of \$1.00 as the value of this property, under the assets column in exhibit I, and in the last item in respect of the endowment fund, there is a list of property including furnishings and effects donated to council at nominal value of \$1.00.

Mr. MARTINEAU: It is a very nice house.

Mr. BUSSIÈRE: I might say that when Miss Terrell put it up for sale in the year she gave it to us, she wanted \$30,000 for it.

Mr. RYAN: Does any part of the \$3,900 go to pay municipal taxes in New Richmond?

Mr. BUSSIÈRE: They have just asked us to pay the taxes, and it will be the first time this year that we pay them.

Mr. RYAN: Have you any estimate of the taxes?

Miss BREEN: The bill was \$500 for the two boards.

Mr. RYAN: When you say that the expenses will be of a recurring nature, I take it that they would be less than \$3,900?

Mr. BUSSIÈRE: They will be approximately \$17,000, if the council decides to go on with the type of program it had there last year.

Mr. RYAN: That would be merely for the salary of the staff?

Mr. TRUEMAN: It would be for food and all that; the whole operating expense.

Mr. BUSSIÈRE: It is a form of scholarship which we provide for scholars and artists to meet there and discuss problems.

Mr. RYAN: I see that by your 1962 and 1963 report it suggests that there has not been much activity around there?

Mr. TRUEMAN: We only operated it for one season. We are in the second season now.

The VICE-CHAIRMAN: Mr. Francis, if you should leave now, we would lack a quorum. I know you do not want that to happen.

Mr. RYAN: From your experience so far with Stanley House, do you intend to continue with this program?

Mr. MARTINEAU: It is too early yet to say. We do not know if it is worth it or not. We tried it last year, and again this year. Then we shall look at the situation and decide whether we will keep it or not.

(Translation)

Mr. GRÉGOIRE: Mr. Martineau could you tell us whether, following the brief you submitted to the Secretary of State about increasing the Canada Council's funds, you expect a favourable answer shortly?

Mr. MARTINEAU: It was well received.

Mr. GRÉGOIRE: But is there any sign that you will be given satisfaction?

Mr. MARTINEAU: It is in the lap of the gods.

Mr. GRÉGOIRE: You have had no reply since March 1964 then?

Mr. MARTINEAU: We have not had an answer to what we asked for.

Mr. GRÉGOIRE: None at all?

The VICE-CHAIRMAN: I would like to thank the members of the committee for their patience, and also the people who came here as witnesses, and I would particularly like to thank them for having improved the culture of the members of the committee, and then allow them to get on with their work, because I know Mr. Martineau has an appointment this evening in Quebec and like that he will be able to get there.

Mr. PIGEON: I would like to congratulate all the people who answered our questions but I hope that next year we shall have at least a full day to study the Council's work in greater detail.

The VICE-CHAIRMAN: Your suggestion will be submitted to the committee.

Mr. GRÉGOIRE: If you will allow me to make one last remarks, I would like to thank them by saying that it is good for us to talk about art now and again, and to leave public accounts aside.

(Text)

Mr. MARTINEAU: Mr. Chairman and gentlemen, may I tell you how much we enjoyed this day. We feared it a little. I know I did, because I did not know exactly what was in store. But I see how useful your questions have been, and how helpful they could be during the year for us. We shall certainly have them in mind when we come back next year. May I thank you also for having stayed so late. You have helped many of us, who have come here and who did not know that Mr. Hees would be your "star" witness this morning. We had thought that we might get through earlier today. We thank you ever so much.

The VICE-CHAIRMAN: The committee now stands adjourned to the call of the Chair.

APPENDIX

DEPARTMENT OF NATIONAL DEFENCE

July 27, 1964

Mr. G. W. Baldwin
Chairman
Public Accounts Committee
House of Commons
Ottawa, Ontario

Dear Sir:

Mr. Winch requested a brief summary of procedures in the Department of National Defence relating to construction projects in the course of the examination of defence items by your Committee on July 14th.

I am enclosing such a summary which I believe covers the information Mr. Winch desired. If there are, however, any further points on which I could be of help, please let me know.

Yours very truly,

E. B. Armstrong
Deputy Minister

cliché

ENGINEERING CONTRACTUAL PROCEDURES FOR
CONSTRUCTION PROJECTS
DEPARTMENT OF NATIONAL DEFENCE

A project is defined to mean any construction or major maintenance work in excess of \$25,000 for labour and material handled as a single contract.

Projects may be originated at Station, Command or Headquarters level, normally to meet requirements resulting from a change in use of a specific facility. As an example, when new fighter aircraft were obtained for the RCAF, the runways had to be lengthened and strengthened to prevent failure because of the increased weight. These individual projects are carefully reviewed and costed, and where it is determined that the project is sufficiently urgent it is included in the following year's estimates. During general consideration of the estimates, these items, along with others, are under constant review by a committee of service officers, members of Treasury Board Staff and senior civilian members of the Department.

If the item is considered sufficiently urgent, approval is given to the appropriate design authority to proceed with the preliminary design. This requires soil and site surveys which may be carried out by a consultant or by technical staff under the Department's control. Once this information has been obtained and analyzed by appropriate technical personnel the final design is commenced—again by consultant or by departmental staffs. Where consultants are utilized, this Department requests Defence Construction Limited to obtain a suitably qualified consultant who acts under the general guidance and supervision of the appropriate design authority within this Department and produces final designs in accordance with the instructions provided. It is at this point that the various administrative and technical controls are incorporated in the design. In some cases a standard building design may be available and will be used. In this case, authority is obtained to employ a consultant capable of producing the necessary foundation design in accordance with soil conditions which were ascertained during the soil surveys.

Final approval to proceed with the project is normally obtained at this time, when the cost estimate prior to actually calling tenders has been developed and is in accordance with the original programme approval provided by Treasury Board. The plans and specifications are forwarded to the appropriate construction agency. Agencies carrying out this work for the Department include DCL, DDP, CMHC, DOT and DPW.

Defence Construction Limited handles the majority of defence work. Tenders are normally called based on Department of National Defence plans and specifications, and recommendations are made to the Minister responsible for the contracting agency concerning contract awards. It provides site supervision, daily contract administration while a project is in progress, and is responsible for the technical administration and liaison between the contractor and the design authority. Examples of items which may occur at this stage are:

- (a) *Changes due to site conditions:* This is the type of technical problem which comes up whenever the site or soil information obtained is incomplete or inaccurate. This incompleteness or inaccuracy can come about in several ways. Since the cost of obtaining soil and site information is quite high, there is occasionally a tendency to try to get by with the site information which has been obtained in the past and is still kept on record. Also, the soil tests, even under the

- best condition, may not reflect rock levels, silt pockets, current water levels, and the various other difficulties which may be encountered.
- (b) *Changes due to errors in design:* This can be a straight error particularly in the plans of any facility which was not caught in the checking subsequent to the design completion. Such errors may occur in the work produced by the Departmental staff as well as the best consultant firms available. Necessary changes normally can be handled at the site, but in certain cases may require addenda to the contract.
- (c) *Changes due to changes in equipment to be installed:* This may be caused by changes in electronic or air conditioning requirements which have developed as a result of increased knowledge in the state-of-the-art and may result in equipment savings many times the actual cost of the change in the construction. Associated with this is also the occasional necessity to increase the scope of a project. This normally requires reference to Treasury Board, as an increase in scope will usually be associated with an increase in cost.

Once the project has been completed, it is handed over to this Department by the construction agency. DCL do this by raising their forms DCL 51 and DCL 54. The DCL 51 is used to permit a preliminary take-over for interm use and is accompanied with deficiencies. The DCL 54 is a final hand-over certificate after all deficiencies have been corrected. The construction agency is now in a position to finalize all payments to the contractor in accordance with his contract.

During the progress of the work, a contractor may claim that he has not been paid for certain extra work which was not anticipated at the time of the original contract award. This is particularly so where a contractor has run into unexpected site conditions over which he had no control and feels that he should be appropriately recompensed. The supervising agency (DCL, DOT, etc.) is responsible for assessing the claim, seeking additional funds from the Department of National Defence if necessary to pay a claim, and obtaining Treasury Board approval to payment of the claim where required.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS

No. 19

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

FRIDAY, JULY 31, 1964

INCLUDING FIFTH REPORT TO THE HOUSE
(Respecting Canadian Broadcasting Corporation)

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

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Cardiff,
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Grégoire,
Gray,
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Leblanc,
Legault,
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Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
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Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

REPORT TO THE HOUSE

WEDNESDAY, August 5, 1964.

The Standing Committee on Public Accounts has the honour to present the following as its

FIFTH REPORT

1. Pursuant to a resolution of the Committee of June 18, 1964, officials of the Canadian Broadcasting Corporation were called and appeared before your Committee.

2. The following is a report of your Committee on six meetings held on July 2 and July 7, 1964 at which Mr. J. Alphonse Ouimet, President of the Canadian Broadcasting Corporation and Mr. V. F. Davies, Comptroller of the Corporation were in attendance, together with Mr. A. M. Henderson, Auditor General of Canada and Mr. A. B. Stokes, Audit Director.

3. Your Committee examined the annual financial statements of the Canadian Broadcasting Corporation for its 1961-62 and 1962-63 fiscal years referred to by the Auditor General in paragraphs 158 and 137 of his Reports to the House of Commons for the years ended March 31, 1962 and 1963, respectively. This examination was facilitated by reference to the annual reports of the Corporation for each of the two fiscal years and by the supplementary reports on the accounts addressed to the Board of Directors of the Corporation by the Auditor General under date of December 6, 1962 and November 22, 1963, copies of which were distributed to the members of the Committee on June 30, 1964 for their advance information.

4. The Committee reviewed and discussed the foregoing with the President and Comptroller of the Corporation as witnesses, and with the Auditor General of Canada and the Audit Director in charge, and reached conclusions on five major points. These, together with the Committee's recommendations on each, are as follows:

The Annual Report of the Corporation

5. The Committee noted that the annual report of the Corporation, tabled annually by the Minister designated under the Broadcasting Act 1958, has generally limited its explanations or comments on its financial statements and accounts therein to the statutory accounts as reported upon by the Auditor General to the Minister under the Financial Administration Act.

While recognizing that no legal or statutory obligation rests upon the Corporation to present additional or supplementary financial information in an annual report of this nature, the members of the Committee expressed the view that the annual report of a Crown corporation responsible for providing a national service of this type should go to greater lengths to illustrate the pattern or broad general areas of its operations by presenting tables and graphs in its annual report showing a breakdown of revenues, expenditures and operations generally, including those of a capital nature.

Members of the Committee noted with interest the emphasis placed by the Corporation in carrying out its national mandate with regard to types and categories of programs both in television and radio, deployment of its

manpower by type and duties, its operating and capital budgets and network and station revenues and expenditures. The Committee expressed interest in obtaining information containing a summary indicating the relevant operating costs of (a) radio and television generally, and (b) the relevant operating costs as between French and English networks of radio and television. With respect to its capital requirements, the Committee felt that a breakdown should be furnished by the Corporation showing the broad areas of its capital spending, particularly the portion expended on developing and extending the national television service to outlying areas. It believes that a similar breakdown showing the Corporation's forward capital expenditure intentions, including the latest estimates of the cost of its projected consolidation of facilities, would provide Parliament and the public with a better understanding of the nature of the Corporation's future planning. Accordingly the Committee recommends that

the President and Board of Directors of the Corporation take steps to improve the contents of the Corporation's annual report by including therein supplementary financial information along the foregoing lines for both its operating and capital budgets and expenditures for the purpose of providing additional information to Parliament and the public.

The Committee was pleased to receive the President's assurance that such steps would be taken and supplementary financial information of the type described would henceforth be included in the Corporation's annual reports.

Statement of Operations

6. The Committee observed that not only does the annual Statement of Operations included in the Corporation's statutory financial statements not disclose the annual gross profit or loss arising from the sale of "Programs with Advertising" but noted the Auditor General's comment that the cost figure shown on the Statement of Operations for "Programs without Advertising" includes a substantial number of programs available for sale but which in fact could not be sold.

The Committee is of the opinion that the Statement of Operations would be materially improved (1) by a redefinition of the existing categories, or by the addition of further categories, so as to show separately the cost of programs without advertising but which were available for sale, and (2) by showing separately on the Statement the gross profit or loss derived from the sale of advertising from all sources during each fiscal year. Here again, the Committee feels that it would be desirable that this additional information should distinguish between (a) radio and television generally, and (b) the relevant operating costs as between French and English networks of radio and television. The Committee believes that separate disclosure of the financial results of a Crown corporation's commercial activities in such a manner is essential if Parliament and the public are to be in a position both to judge the results as well as to understand the implications of such operations regardless of the fact that the Corporation may, by reason of its mandate, be primarily concerned with operating a national service. Accordingly the Committee recommends that

the President and the Board of Directors realign the format of the annual Statement of Operations of the Corporation in a manner designed to show separately in future for each fiscal year (1) the cost of programs produced without advertising but which were available for sale and (2) the gross profit or loss derived from the sale of advertising from all sources.

The Committee was pleased to learn from the President that such a realignment could be made of the Statement of Operations and expresses the hope that this can be done and made effective on a comparative basis commencing with the 1964-65 fiscal year.

Size of Operating and Capital Requirements

7. The Committee expressed concern over the increasing cost of the Corporation's annual operating requirements which the President stated he believes will continue to increase in size each year in future, assuming Parliament votes the necessary funds. The President indicated that the estimates for Montreal and Toronto, shown on the Corporation's balance sheet at March 31, 1963 to have been \$83 million, have since been further revised and are now expected to cost \$105 million. The Committee would also record that it has since noted from the Corporation's balance sheet as at March 31, 1964, tabled by the Secretary of State in the House on July 14, 1964, that the present estimate of the future cost of consolidation of facilities for the Corporation is stated to be \$128 million. The Committee expressed grave concern over the size of these large capital outlays estimated by the Corporation to be required to provide for the consolidation of facilities, as opposed to the extension of services to areas not now adequately served.

The President explained to the Committee how the Corporation prepares its annual budgets and estimates as to future costs and submits them to the Treasury Board for approval prior to the figures being placed before Parliament for appropriation. He showed how determination of the Corporation's annual financial requirements both on operating and capital account is based on the management's own estimate of how much it considers is going to be required to provide for continuance of an effective national broadcasting service, taking into consideration all known cost factors and estimates of revenue likely to be forthcoming. The Committee has noted that the Corporation's expenditures each year have been kept by its management within its operating and capital budgets.

Nevertheless, the Committee is seriously concerned at the levels the Corporation's spending on operating and capital account have reached since television was first introduced into the national service in 1955. The operating expenses of the Corporation totalled \$40 million in its fiscal year 1955-56 whereas these expenses had risen to \$108 million in the fiscal year 1962-63. The Committee emphasizes that the House of Commons, through the Committee of Supply, has a definite responsibility to exercise control on the extent to which public funds should be expended for the maintenance and development of the national broadcasting service. It is therefore pleased with the action of the government on May 25, 1964 in forming an Advisory Committee on Broadcasting and would commend consideration of this problem as one of the primary and immediate objectives of this Committee.

Authority of Comptroller over Regional Accountants

8. The Committee was disturbed to learn that the authority of the Comptroller over the accounting staffs at the regional centres of the Corporation across Canada is not clearly defined and expresses agreement with the view of the Auditor General that the regional accountants should be responsible directly to the Comptroller at head office in the interests of effective internal financial control. The Committee is of the opinion that a clear definition of this responsibility is overdue and was pleased to be advised by the President that it will receive early attention.

The Auditor General is requested to advise the Committee when this matter has been settled to his satisfaction.

Report of the Royal Commission on Government Organization

9. The Committee noted that the Auditor General raised questions concerning contents of Report No. 19, Volume 4 of the report of the Royal Commission on Government Organization, which was made public on April 17, 1963. In answering members of the Committee on these points, the President stated that he did not agree with all the recommendations of the Royal Commission and explained that the Royal Commission had apparently failed to understand the nature of the problem.

The Committee recommends that the Secretary of State table an official memorandum in the House presenting the Corporation's views and its replies to each of the matters dealt with by the Royal Commission in its Report No. 19, and that this be done before the estimates of the Corporation are considered by the House.

* * *

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 11, 12 and 19*) is appended.

Respectfully submitted,

PAUL TARDIF,
Vice-Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, July 31, 1964
(32)

The Standing Committee on Public Accounts met this day *in Camera* at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Danforth, Fane, Fisher, Gendron, Gray, Hales, Leblanc, Mandziuk, Rondeau, Southam, Stefanson, Tardif, Tucker, Whelan, Winch—(17).

The Committee proceeded to the consideration of its "draft" report to the House relating to the Canadian Broadcasting Corporation, and following its consideration and amendment, was adopted. The Chairman was ordered to present it to the House as the Committee's Fifth Report.

The Chairman tabled returns from the Department of National Defence and the Canadian Broadcasting Corporation, which were ordered printed as Appendices to the record of this day. (*See Appendices 1 and 2*).

At 10.40 a.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

APPENDIX I

(The following information supplied by the Deputy Minister, Department of National Defence, as requested at sitting of July 14)

TOWN OF OROMOCTO, N.B.
COMPARISON OF EXPENDITURES AND REVENUE
1956 to 1963 Inclusive

	1956	1957	1958	1959	1960	1961	1962	1963
EXPENDITURE								
General Administration.....	24,735.28	24,556.62	34,372.42	54,774.19	50,672.05	84,799.64	95,397.91	89,602.72
Town Planning.....	599.43	9.95	25,466.49	37,937.52	22,149.42	12,657.90	3,752.48	174.42
Health and Public Welfare.....	42.50	205.06	128.96	1,363.35	3,562.51	7,579.45	12,953.90	18,729.15
Public Services:								
(a) Police.....	—	5,181.88	11,557.36	20,388.82	26,306.72	28,360.27	31,830.62	30,631.07
(b) Works Department.....	28.60	15,632.51	78,193.20	201,996.06	197,026.54	200,808.43	213,547.81	216,333.03
(c) Fire Department.....	600.00	7,823.06	6,275.76	67,254.98	81,289.71	93,810.96	98,607.59	95,569.79
(d) Recreation.....	—	—	1,135.37	14,290.19	20,327.43	26,294.91	26,294.91	24,091.43
(e) Garbage Collection and Disposal.....	40.00	2,235.00	7,595.88	11,468.58	16,245.59	12,659.15	12,810.25	12,764.00
(f) Dog Pound Operation.....	—	—	1,841.43	3,682.75	1,707.37	2,604.41	1,856.63	2,837.21
(g) Street Lighting.....	619.94	560.70	373.80	358.80	15,355.09	19,788.15	27,601.28	29,769.74
Total—Public Services.....	1,288.54	31,433.15	106,972.80	319,449.18	358,258.45	371,161.40	412,549.09	412,296.27
Education	39,568.70	143,192.00	417,256.67	646,758.26	985,146.04	743,062.97	942,796.73	1,131,156.38
Grants	—	—	120,000.00	67,000.00	1,000.00	9,350.00	9,735.00	10,250.00
Provision for Uncollectable Taxes..	1,154.80	—	—	—	—	19.62	—	—
Debt Charges	—	15,003.64	161,571.99	239,859.57	330,862.03	362,704.75	362,696.11	362,529.90
County Warrant—Sunbury Co.....	2,255.84	1,465.18	1,894.98	7,217.13	9,033.88	10,000.00	16,450.00	15,734.00
Tax Discounts	431.37	236.50	339.53	488.89	961.98	1,106.47	1,396.41	1,440.98
Surplus—Excess of Revenue over Expenditure.....	31,904.03	36,441.59	6,012.86	138,258.81	28,983.43	94,489.02	—	—

Civil Defence Costs.....	—	—	—	—	117.66	802.16
Deficit from previous Year.....	—	—	—	—	—	6,202.93
Future Development Community Enterprises.....	—	—	—	108,205.41	—	—
TOTAL—Expenditure Section.....	101,980.49	252,543.69	873,956.70	1,513,106.90	1,857,845.29	2,048,918.91
REVENUE						
Taxation.....	13,082.40	6,479.01	9,499.54	15,777.50	27,487.00	34,143.00
Licences and Permits.....	—	615.13	3,067.77	4,167.71	6,532.41	7,489.50
Rents.....	78.55	4,762.50	4,556.65	2,100.00	480.00	480.00
Fines.....	—	810.00	3,276.10	5,704.60	4,484.20	2,295.20
Interest.....	8,389.35	14,910.20	13,547.10	36,437.40	21,174.99	18,789.62
Contributions, Grants and Subsidies:						
(a) Dominion of Canada (D.N.D.).....	75,000.00	184,552.65	794,905.09	1,433,609.00	1,479,400.00	1,541,898.00
(b) N.B. Provincial Subsidy.....	5,430.19	6,298.97	7,234.71	7,733.52	8,496.05	120,420.73
(c) N.B. Snow Removal Grant.....	—	—	—	661.00	661.00	12,170.00
(d) N.B. Grants—Welfare and Civil Defence.....	—	—	—	—	4,690.60	11,058.82
(e) Lincoln & Burton—Fire Protection.....	—	—	—	672.15	600.00	600.00
Total—Contributions, Grants and Subsidies.....	80,430.19	190,851.62	802,139.80	1,442,675.67	1,493,847.65	1,679,844.02
Other Miscellaneous Revenue.....	—	2,211.20	1,428.15	231.16	634.86	245.84
Recoveries from Development Corporation.....	—	—	—	—	13,225.36	12,583.37
Surplus from previous Year.....	—	31,904.03	36,441.59	6,012.86	128,983.43	—
Deficit current Year—(excess of Expenditure over Revenue)....	—	—	—	—	—	—
TOTAL—Revenue Section.....	101,980.49	252,543.69	873,956.70	1,513,106.90	1,857,845.29	2,048,918.91

APPENDIX 2

CANADIAN BROADCASTING CORPORATION

P.O. Box 478,
Terminal "A",
Ottawa 2, Ontario,
July 29, 1964.

Mr. M. Slack,
Clerk of the Public Accounts Committee,
Committees Branch,
House of Commons,
Room 489,
West Block,
Ottawa, Ontario.

Dear Sir:

We have completed the further statements in reply to queries raised at the Public Accounts Committee meetings on July 2nd and 7th.

Each of these answers is attached in duplicate in English and French. The references to the Minutes of the Proceedings are as follows:

Schedule	Page	Member	Subject
1	360	Ryan	Film Purchase and Rentals
2	459	Prittie	Sale of CBC Programs to Commonwealth Countries
3	462	Southam	Accounts receivable—Miscellaneous
4	496	Ryan	Consolidation of Facilities.

Yours truly,

C. F. SPENCE,
for V. F. Davies, Comptroller.

SCHEDULE 1

CANADIAN BROADCASTING CORPORATION
FILM PURCHASE AND RENTALS
ACTUAL EXPENSE COMPARED WITH BUDGET TABLED
1959/60, 1960/61

1959/60

Budget tabled	\$6,090,000
Actual expense	7,313,000
Actual expense over budget	1,223,000

It had formerly been CBC practice to broadcast certain film series purchased and paid for by advertisers. In order to exercise quality control over all programs, the Corporation decided to buy all film series direct from distributors instead of broadcasting films supplied by the advertisers.

The increased expense relates to additional film series purchased as a result of this decision for sale to advertisers in the fall/winter of 1959/60. The increase was recovered in full from sales.

1960/61

Budget tabled	\$6,376,000
Actual expense	7,576,000
Actual expense over budget	1,200,000

The increase relates to the decision to buy all film series from the suppliers as in the previous year. In this year also the increase was recovered in full from sales.

17.7.64

SCHEDULE 2

CANADIAN BROADCASTING CORPORATION
SALE OF CBC PROGRAMS TO COMMONWEALTH COUNTRIES

1962/63

In the year 1962/63 the Corporation sold 39 programs or program episodes to commonwealth countries; 38 of these were sold in UK and one in Australia.

The total profit on these sales amounted to \$103,000.

July 22, 1964.

SCHEDULE 3

CANADIAN BROADCASTING CORPORATION
ACCOUNTS RECEIVABLE—MISCELLANEOUS

The report of the Auditor General for the year ended March 31, 1963 shows on page 10 miscellaneous accounts receivable amounting to \$285,903 compared with \$148,070 in the previous year.

The increase relates to Export Sales made late in the fiscal year. These accounts have since been paid.

13.7.64

SCHEDULE 4

CANADIAN BROADCASTING CORPORATION
CONSOLIDATION OF FACILITIES

Total expenditures on consolidation of facilities to March 31, 1963 were shown on page 17 of the report of the Auditor General for that year, in the amount of \$3,802,000. This is made up as follows:

Toronto:

Land	639,000	
Building design and plans	788,000	
Equipment engineering	375,000	
Consultant fees	287,000	
Other expenses	138,000	2,227,000

Montreal:

Engineering planning	131,000
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Ottawa—Head Office

Land	45,000	
Engineering and supervision	232,000	
Building	1,167,000	1,444,000

\$ 3,802,000

28.7.64.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 20

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, OCTOBER 15, 1964

TUESDAY, OCTOBER 20, 1964

INCLUDING SIXTH REPORT TO THE HOUSE

WITNESSES:

From the Department of Veterans Affairs: Mr. Paul Pelletier, Deputy Minister; Dr. J. N. B. Crawford, Assistant Deputy Minister and Director General Treatment Services. Mr. A. M. Henderson, Auditor General of Canada; and Mr. J. R. Douglas, of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Gray,
Grégoire,
Hales,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,

Pilon,
Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

REPORT TO THE HOUSE

TUESDAY, October 20, 1964.

The Standing Committee on Public Accounts has the honour to present its

SIXTH REPORT

1. The following is a further progress report made on the work done by your Committee in this Second Session of the 26th Parliament and relates to its meetings from July 9, 1964 up to and including July 31, 1964 when the Committee adjourned to the call of the Chair.
2. During that period your Committee held fifteen meetings in the course of which there were in attendance:

From the Department of National Defence—

Mr. E. B. Armstrong, Deputy Minister
Brigadier W. J. Lawson, Judge Advocate General

From Crown Assets Disposal Corporation—

Mr. Louis Richard, President and General Manager
Mr. I. M. Mackinnon, Assistant General Manager
Mr. L. M. Mondor, Comptroller

From the Department of Justice—

Mr. E. A. Driedger, Deputy Minister

From the Department of Transport—

Mr. G. A. Scott, Acting Deputy Minister
Mr. R. W. Goodwin, Director of Civil Aviation
Mr. H. J. Williamson, Chief, Technical and Policy Co-ordination
Mr. W. A. Ramsay, Chief Architect, Air

From the Department of Finance—

Mr. R. B. Bryce, Deputy Minister
Mr. A. B. Hockin, Director, Financial Affairs and Economic Analysis Division
Mr. H. D. Clark, Director, Pensions and Social Insurance Division
Mr. D. W. Franklin, Director, Program Analysis Division
Mr. M. H. Wilson, Financial Affairs and Economic Analysis Division
Mr. H. W. Johnson, Director, Accounting Services Branch, Office of the Comptroller of the Treasury
Mr. R. S. Robertson, Authorities Branch, Office of the Comptroller of the Treasury

From the Bank of Canada—

Mr. A. C. Lord, Assistant Chief, Foreign Exchange Department

From the Department of Public Works—

Mr. Lucien Lalonde, Deputy Minister
Mr. G. B. Williams, Assistant Deputy Minister (Technical)
Mr. L. P. Boyle, Financial Adviser

The Honourable George Hees

From the Canada Council—

Mr. Jean Martineau, Chairman
 Mr. Marcel Faribault, Member
 Mr. Trevor Moore, Member
 Dr. C. J. Mackenzie, Member
 Dr. A. W. Trueman, Director
 Mr. E. Bussière, Associate Director
 Mr. P. M. Dwyer, Assistant Director (Arts)
 Miss L. Breen, Secretary-Treasurer
 Mr. D. W. Bartlett, Acting Secretary General, Canadian National Commission for UNESCO
 Mr. L. Perinbam, Secretary General, Canadian National Commission for UNESCO
 Mr. D. H. Fullerton, Investment Consultant

From the Office of the Auditor General of Canada—

Mr. A. M. Henderson, Auditor General
 Mr. George Long, Acting Assistant Auditor General
 Mr. B. A. Millar, Audit Director
 Mr. D. A. Smith, Audit Director
 Mr. H. G. Crowley
 Mr. S. E. Chapman
 Mr. H. E. Hayes
 Mr. J. M. Laroche
 Mr. T. S. Hogan

3. In the course of its meetings your Committee gave consideration to the Reports of the Auditor General for the fiscal years ended March 31, 1962 and March 31, 1963 to the extent, in the case of the latter, of paragraphs 52 to 61, inclusive, and paragraph 175 covering matters concerning the Department of Finance; to paragraphs 64 to 70, inclusive, and to six items in Appendix 1 (non-productive expenditures) covering matters concerning the Department of National Defence; to paragraphs 79 to 87, inclusive, paragraph 96, and to twenty-five items in Appendix 1 (non-productive expenditures) covering matters concerning the Department of Transport and the Department of Public Works.

4. Your Committee also examined the financial statements of the Canada Council for its 1961-62 and 1962-63 fiscal years referred to by the Auditor General in paragraphs 192 and 173 of his Reports to the House of Commons for the years ended March 31, 1962 and 1963, respectively. This examination was facilitated by reference to the annual reports of the Council for each of the two fiscal years and by the supplementary reports on the accounts addressed to the Chairman and Members of the Canada Council by the Auditor General under date of July 31, 1962 and July 26, 1963, copies of which were distributed to the members of the Committee on July 21, 1964 for their advance information.

5. In addition to the foregoing, your Committee dealt with several other matters as mentioned hereinafter.

6. *Sub-Committee on Disposal of Surplus Crown Assets*

On July 9, 1964 the Auditor General, at the Committee's request, reported on the sale of new and usable surplus materials of the Department of National Defence by Crown Assets Disposal Corporation. This report gave an analysis of materials with a cost valuation of \$29 million representing 81% of the total cost valuation of \$35.6 million of surplus materials dealt with during the fiscal year 1962-63. The report indicated that the amount realized from this \$29 mil-

lion worth of materials was \$715,106. Your Committee heard statements concerning the sale of these surplus materials by Mr. E. B. Armstrong, Deputy Minister of the Department of National Defence, and Mr. Louis Richard, President and General Manager of Crown Assets Disposal Corporation.

Members of your Committee were concerned at the large quantity of materials becoming surplus with a relatively small percentage of recovery from their sale. The suggestion was made that more information concerning sales of surplus materials and equipment should appear in the departmental sections of the Public Accounts. In order that the matter might be reviewed in greater detail, a sub-committee consisting of Messrs. Tardif, Hales, Winch, Côté (*Chicoutimi*) and Francis was formed on July 23, 1964 under the chairmanship of Mr. Tardif. This sub-committee is currently meeting.

7. *Sub-Committee on Form of the Public Accounts*

Following consideration of the comments of the Auditor General on the form of the Public Accounts contained in his 1962 and 1963 Reports to the House, the Committee decided that a sub-committee should be established during the present session to examine and report upon this problem. Such a sub-committee was formed on July 23, 1964 consisting of Messrs. Ryan, Prittie, Southam, Smith, Rondeau, Pilon and Cameron (*High Park*). This sub-committee is under the chairmanship of Mr. Ryan and is currently meeting.

8. *Legal adviser to the Auditor General*

The Deputy Minister of Justice appeared before the Committee and explained how he had come to the conclusion that because the Minister of Justice is by statute and constitutional practice the official legal adviser of the Crown and the departments of government, he should not take on the official role of legal adviser to the Auditor General as he and his predecessors had done in the past.

In the opinion of the Committee, it is fundamental that the Auditor General should have recourse to legal advice in the form of written opinions independent of the Crown and executive branch of government. The Committee has suggested to the Auditor General that appropriate arrangements be made.

9. *Non-productive payments*

The Committee expressed concern at the increasing number of non-productive payments noted by the Auditor General, the listing for the year ending March 31, 1962 having amounted to 22 cases totalling \$627,547 while those for the year ending March 31, 1963 amounted to 37 cases involving \$1,051,193 in public funds.

Since the majority of these cases involved expenditure by three departments, namely Public Works, National Defence and Transport, members of the Committee questioned the deputy ministers of these three departments closely as to the causes and reasons of many of the larger losses. A number of these losses arose from circumstances beyond the control of the department named, for example Public Works in its role as a service department.

The Committee is of the opinion that the majority of these losses must be attributed either to failure to exercise normal commercial prudence in entering into contractual obligations or to lack of effective departmental specifications, organization or coordination. It also believes that failure by departments to pinpoint blame for many such losses and to take corrective action accordingly is a contributing factor.

The Committee reiterates the request it made to the Auditor General in 1961 concerning this type of loss, namely that in his future annual Reports to the House of Commons the Auditor General continue to include listings of all non-productive payments coming to his notice in the course of his audit.

10. *National Defence administrative regulations and practices*

The Committee is pleased to note that with the exception of lease termination payments, appropriate changes have been or are in the process of being made in each of the Armed Forces' administrative regulations commented on by the Auditor General. It trusts that the changes will bring about the desired results and requests the Auditor General to inform the House of Commons of any case where the changes appear to be inadequate or where abuse and waste of public funds develop.

11. *Lease termination payments*

The Committee has been consistently recommending since 1960 that the maximum period for lease termination payments be reduced in future from three months' rent as presently permitted to the equivalent of one month's rent. The Deputy Minister of National Defence explained to the Committee that its recommendation has not been adopted because of possible hardship to servicemen, but that steps had been taken to reduce such claims to a minimum and that the average period for which termination payments are made is approximately one month.

Your Committee does not wish to see servicemen penalized. It continues, however, to hold the opinion that the present regulation permitting payment of three months' rent is too susceptible to abuse and constitutes an unnecessary waste of public funds. It recommends that the regulation be changed to reduce the maximum period to one month with the proviso that payment up to three months may be made in cases of hardship, providing such cases are approved by the Deputy Minister.

12. *Unauthorized use of Crown-owned vehicles*

The Committee considers that uniform penalties of sufficient magnitude to act as a real deterrent to the unauthorized use of Crown-owned vehicles, applicable to all personnel, are desirable, particularly because of the number of accidents costly to the Crown which have occurred in such circumstances. The Committee recommends that the regulations be amended to provide for this.

13. *Financial assistance to Town of Oromocto*

The Committee notes the comments of the Auditor General in paragraph 142 of his 1962 Report and recommends to the Department of Finance that consideration be given to writing off to expense the loans referred to.

14. *Educational costs incurred by the Department of National Defence*

The Committee noted that audit examinations at selected departmental schools in Ontario indicated that there had been unsatisfactory control over the computation of grants recoverable from the provincial Department of Education and in some cases claims had not been made in respect of outlays eligible for grants. It was also noted that the Department was reviewing its practices regarding such grants.

The Committee requests that the Auditor General follow this matter up to determine that amounts of grants under-claimed in the past are recovered and that practices adopted by the Department to avoid losses in the future are adequate.

15. *Assistance to provinces by the Armed Forces in civil emergencies*

The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided to the provinces by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting

the accounts, they had been referred to the Executive for direction, and it noted such direction had not as yet been received. The Committee requests the Auditor General to inform it of the final outcome of these matters.

16. Pension awards effective at early age

The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requests the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages.

17. Discretionary awards of Service pensions

The Committee noted that the Department is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible, would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requests the Auditor General to advise it in due course of any action taken to revise the present system.

18. Overlapping of pension benefits

The Committee was pleased to hear from the Deputy Minister of National Defence that it was his intention when the Canadian Forces Superannuation Act is to be amended to bring this matter to the attention of the Ministers with a view to preventing future incidents of this kind. The Committee requests the Auditor General to keep it informed as to progress made.

19. Catering contract, Montreal International Airport

In considering the background to the placing of a contract for catering operations at the Montreal International Airport and of the problems with which the Department of Transport was later faced, the Committee was assisted in its review by the Minister of Transport at the time that the contract was entered into.

The Committee is of the opinion that greater care should have been exercised before the contract in question was entered into to ensure that the contractor was financially responsible and able to meet its contractual obligations, e.g., personal performance bonds by individual shareholders in an adequate sum should have been given. The Committee also believes that the Department was remiss in not using the means available to it under the contract to enforce its terms, particularly with regard to the procurement of furnishings and equipment and the payment of indebtedness to the Department.

20. Advances to the Exchange Fund Account

The Committee was pleased to receive and to give consideration to the report by the Minister of Finance on the Exchange Fund Account which it had requested in its Fifth Report 1961.

The Committee is glad to note that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, is to be transferred to the Consolidated Revenue Fund.

The Committee approves of the Minister's proposal that the surplus of \$30.3 million at December 31, 1963 be left in the fund to serve as a reserve against any future revaluation losses.

The Committee understands the reluctance of the Minister to decide today whether future profits or losses arising from changes in exchange rates should be transferred to the Consolidated Revenue Fund at each year-end because of the possibility of these causing serious distortions in the budgetary accounts. However, the Committee also noted the statement by the Auditor General that the present surplus would be much larger had past exchange losses been charged to expenditure as they occurred, and that a drop of as little as two cents in value of the United States dollar can again cause the Exchange Fund Account to go into a deficit position. It therefore recommends that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the above-mentioned surplus and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account.

21. Superannuation Accounts

The Committee discussed with the Deputy Minister of Finance the two problems associated with the Superannuation Accounts, namely amortization of past actuarial deficiencies in the Public Service Superannuation Account, Armed Forces Superannuation Account and R.C.M.P. Superannuation Account, and the question of contributions which had not been made over the past several years to the Public Service Superannuation Account with respect to salary increases of general application.

The Deputy Minister of Finance commented on the proposals made by the Minister of Finance to the House of Commons on March 6, 1964 with respect to the actuarial deficiencies in the three Superannuation Accounts, which proposals substantially meet the points raised by the Auditor General in his 1962 and 1963 Reports to the House of Commons. The Committee suggests that the Auditor General outline to the House in his next Report the adjustments which have been made in carrying out the new policy proposed by the Minister.

22. Errors in Public Service Superannuation Account pension and contribution calculations

The Deputy Minister of Finance informed the Committee that action has been taken to deal with this problem and suggested that the Committee should perhaps wait for a report until the accounts of the current year are before it. The Committee is concerned that this matter, which it regards as being very serious, is taking so long to be corrected. It requests the Auditor General to keep it fully informed.

23. Pension increased by payment of two salaries

The Committee was informed by the Deputy Minister of Finance that he agreed with the Auditor General's statement that an amendment to the Public Service Superannuation Act is necessary if the Superannuation Account is to be protected from excessive annuity charges due to contributions being made on two salaries when a contributor takes employment with a Crown corporation while on retiring leave from a department.

The Committee expects to see suitable amending legislation introduced in due course and requests the Auditor General to keep it fully informed.

24. Reciprocal transfer agreements for superannuation benefits

The Committee was informed by the Deputy Minister of Finance that the point involved here is a very technical legal one. It suggests that when the Public Service Superannuation Act is next amended a suitable amendment be introduced which will provide for the disposition of any excess amounts of contributions in reciprocal transfer cases.

25. *Interest charges on loans to the National Capital Commission*

In its Fourth Report in December 1963 the Committee expressed the view that, since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years. In the course of its meetings, the Committee heard additional arguments from the Deputy Minister of Finance in favour of the present method of financing these land purchases.

The Committee continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It points out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice.

The recommendation is therefore repeated that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

26. *Accounts receivable*

The Committee is concerned that weaknesses exist in the internal control with respect to accounts receivable and suggests that the Treasury Board have the matter studied with a view to establishing procedures designed to ensure that amounts due to the Crown are adequately recorded and that an accounts receivable control system be instituted. Collection procedures must be tightened up and firmly enforced.

The Committee agrees with the Auditor General's observation that it would be informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts of Canada each year.

27. *Indirect compensation to chartered banks*

The Committee in its Fourth Report 1963 advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93 (1) of the Bank Act.

The Committee reiterates its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

THE CANADA COUNCIL

28. In its Fourth Report in December 1963 the Committee noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the hotch-pot or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee postponed further consideration of the matter.

The Committee was informed that in the interim the Council has proceeded to allocate and distribute funds resulting from profits realized and interest

earned on the foregoing bases. The Committee regards the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of subsection (2) (b) of section 17 of the Canada Council Act, recommends that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the hotch-pot approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

The members were favourably impressed with the explanations and accounting furnished to the Committee by the Chairman, Members and officers of the Council.

* * * *

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 13 to 18 inclusive and No. 20*) is appended.

Respectfully submitted,

G. W. BALDWIN,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, October 15, 1964
(33)

The Standing Committee on Public Accounts met this day *in camera* at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Cardiff, Forbes, Gendron, Grafftey, Hales, Harkness, Legault, Mandziuk, McLean (*Charlotte*), Rinfret, Rock, Ryan, Southam, Stefanson, Tardif, Tucker, Winch (20).

The Chairman announced a tentative schedule of further witnesses commencing October 27.

The Committee proceeded to the consideration of its "draft" further interim report to the House, and following its consideration and amendment, paragraph by paragraph, it was adopted. The Chairman was ordered to present it to the House as the Committee's Sixth Report.

At 10.35 a.m., the Committee adjourned until Tuesday, October 20, 1964, at 9.30 a.m.

TUESDAY, October 20, 1964.
(34)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cameron (*High Park*), Cardiff, Crouse, Danforth, Fane, Francis, Frenette, Harkness, Lessard (*Saint-Henri*), McLean (*Charlotte*), Pilon, Prittie, Rock, Ryan, Stefanson, Tardif, Tucker, Whelan, Winch (21).

In attendance: From the Department of Veterans Affairs: Mr. Paul Pelletier, Deputy Minister and Dr. J. N. B. Crawford, Assistant Deputy Minister and Director General Treatment Services, Mr. A. M. Henderson, Auditor General of Canada, and Mr. J. R. Douglas, of the Auditor General's office.

The Chairman announced the schedule of further witnesses commencing October 27. (*See Evidence*).

Mr. Baldwin tabled returns from the Departments of Transport, Public Works and National Defence which were ordered printed as Appendices to the record of this day. (*See Appendices 1, 2, 3 and 4.*)

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

The Chairman introduced Messrs. Pelletier and Crawford and then called Mr. Henderson.

On paragraphs 104 of the 1962 Report and 90 of the 1963 Report, *Veterans' hospitals and institutions*, Messrs. Henderson, Pelletier and Crawford reviewed this subject and were examined thereon and also supplied additional information.

On paragraphs 106 of the 1962 Report and 91 of the 1963 Report, *Employment of part-time doctors by Department of Veterans Affairs*, Mr. Henderson commented thereon and was examined, together with Mr. Douglas.

Messrs. Pelletier and Crawford were further examined and supplied additional information thereon.

The questioning of the witnesses being concluded, the Chairman thanked Messrs. Pelletier and Crawford for their assistance to the Committee.

At 11.30 a.m., the Committee adjourned until 9.30 a.m. Thursday, October 22, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, October 20, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. I am glad to see we are all set to go with a further examination of Mr. Henderson's report.

Before I introduce the witnesses whom we have here today may I give you a general idea of the tentative schedule of the matters yet to be disposed of and which will require the presence of witnesses so that this will be on the record and we will know about it.

Next Thursday, on October 22, Dr. Cameron, the deputy minister of the Department of National Health and Welfare will be with us in connection with two items referred to in the report. On October 27, a week from today, Mr. Anderson, the chairman of the Canadian Pension Commission, and his officials will be here. On Thursday, October 29, Colonel Cromb, chairman of the war veterans' allowance board will be here. On Tuesday, November 3, we will have with us Mr. Sim, deputy minister of the Department of National Revenue. This will probably involve several meetings because there are a number of items to be discussed. We are also hoping that Mr. Castonguay will be with us some time around the first week in November. There are a number of items referred to in paragraph 49 dealing with election expenses.

Finally, there is an item involving the Port Arthur Elevator Company which may require the presence of Mr. Barry, the deputy minister of the Department of Agriculture. By that time, if we have completed all of the other matters included in Mr. Henderson's report, it is very likely that if the committee so wishes we might consider hearing one of the crown corporations which has not been the subject of any discussion before. I mention that because Mr. Slack, the clerk of the committee, made a search and we discovered that over the last eight years only five of the 20 crown corporations have been the subject of any examination at all. They are as follows: The Canadian Maritime Commission, the Export Credits Insurance Corporation, the Crown Assets Disposal Corporation, the Polymer Corporation and the Canadian Broadcasting Corporation which appeared before us this year. Anyone examining the reports will realize that there is a tremendous amount of money involved in these expenditures, and your steering committee did think that the committee might give some consideration to working out a procedure, certainly for next year, involving possibly the establishment of a subcommittee before which several crown corporations would appear each year. However, this is something we can decide later.

At this time we do hope we will have time to ask the officials of one of the crown corporations to appear, and possibly members might give some thought to which corporation they would like to see appear before the committee.

I have one other matter of routine business. I have here a number of letters which have come in during the recess which contain answers to questions asked by members during the course of our proceedings. I will not go over them with you in detail but I would ask that you agree that these be printed as appendices to today's proceedings so that answers to questions which members asked during the previous meetings would be available. Is this agreed? I understand it is.

We have Mr. Paul Pelletier with us today, the deputy minister of the Department of Veterans Affairs. I think he is known to most of you. Before

his present position he was a member of the civil service commission and as such did appear before the committee some years ago. He has with him Dr. Crawford, who is the director general in connection with veterans hospitals, which are the subject of discussion today.

We will be examining today items 90 and 91 which appear on page 58 of the Auditor General's 1963 report.

Following our usual practice, I will ask Mr. Henderson to give us the benefit of his comments, and then I will call upon Mr. Pelletier. We can then launch into the usual question and answer period.

Mr. Henderson.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman.

The first paragraphs with which we might deal are 104 in my 1962 report and 90 in my 1963 report, both of which have to do with veterans hospitals and institutions.

104. *Veterans hospitals and institutions.* Hospitals and institutions operated by the Department of Veterans Affairs, originally provided to take care of veterans requiring treatment for war service disabilities, are at present being occupied to a considerable extent by domiciliary care cases and war veterans allowance recipients. The latter, who are provided treatment for all conditions, service-induced or otherwise, are for the most part insured under the various provincial hospital insurance plans. During 1961-62 domiciliary care patients and war veterans allowance recipients accounted for 40 per cent and 21 per cent, respectively, of all patient days in departmental hospitals and institutions whereas disability pensioners accounted for only 17 per cent. During the year the average per diem cost of maintaining patients in active treatment hospitals where 38 per cent of the occupied beds were taken up by domiciliary care cases was \$18.76 compared with \$9.63 in non-active treatment centres where occupancy is predominantly by domiciliary care cases.

The cost of operating departmental hospitals and institutions for the fiscal years 1956-57 and 1961-62 was \$34,596,693 and \$46,771,192, which, based on total in patient days of 2,750,651 and 2,574,509, results in cost per in patient day of \$12.58 and \$18.17—an increase during the five year period of 44.4 per cent. In addition, capital expenditures, mainly for improvements and equipment, averaged approximately \$4.5 million per year during this period.

The introduction of provincial hospital insurance plans under which war veterans allowance recipients are insured, the declining numbers of pensionable disability cases being cared for in departmental hospitals, the rising cost of operating the hospitals and the increasing use of expensive active treatment facilities for housing domiciliary care cases, all indicate that a reappraisal of the department's role in the operation of hospitals would be desirable. We understand that this has been the subject of a detailed study carried out by the royal commission on government organization, although no report or recommendations have yet been made.

90. *Veterans' hospitals and institutions.* In last year's report (paragraph 104) we pointed out that hospitals and institutions operated by the Department of Veterans Affairs, originally established to take care of veterans requiring treatment for war service disabilities, were presently being occupied to a considerable extent by domiciliary care cases and war veterans allowance recipients. These two classes respectively accounted for 40 per cent and 21 per cent of the total patient days in these hospitals and institutions in 1961-62, whereas disability pen-

sioners accounted for only 17 per cent. We reported that during 1961-62 the average cost of maintaining patients in active treatment hospitals was \$18.76 per day compared with \$9.63 per day in non-active treatment centres, and we also referred to the fact that the cost per in patient day of operating departmental hospitals and institutions had risen by 44.4 per cent in the five-year period from 1956-57 to 1961-62. We concluded our comments with the suggestion that reappraisal of the department's role in the operation of hospitals seems desirable in view of:

- (a) the declining numbers of pensionable disability cases being cared for;
- (b) the rising cost of operating hospitals;
- (c) the increasing use of expensive active treatment facilities for housing domiciliary care cases; and
- (d) the introduction of provincial hospital insurance plans under which most of the War Veterans Allowance recipients are insured.

In 1962-63 the proportion of patient days accounted for by domiciliary care cases and war veterans allowance recipients rose slightly to 41 per cent and 22 per cent respectively, while that for disability pensioners remained at 17 per cent. The cost of operating departmental hospitals and institutions was \$49,884,000 compared with \$46,771,000 in 1961-62. The figure for 1962-63, however, included \$2,717,000 for the cost of medical services provided to the hospitals by part time doctors, an expense incurred but not allocated to hospital operations in previous years. On a comparative basis, therefore, the increase in the cost of operations in 1962-63 was \$396,000 over that for the preceding year. Based on a total of 2,545,552 in patient days (2,453,514 in active treatment hospitals), the average cost per patient day of maintaining patients in 1962-63 was \$20.21 in active treatment hospitals (including \$1.10 for medical services of part time doctors) compared with \$10.88 in non-active treatment centres. Thus the situation outlined in last year's report remained substantially unchanged during 1962-63.

I first made mention of the rising costs of these institutions in paragraph 104 of my 1962 report, which you will find at page 47 of that report, and I brought the same cost information up to date in paragraph 90 of my 1963 report, which you will find on page 58.

These hospital facilities were originally established to treat war service disabilities. Today, they are increasingly occupied by domiciliary care cases—to the extent of 41 per cent in 1962-63—which do not appear to require expensive general hospital accommodation, and war veterans' allowance recipients to the order of 22 per cent in 1962-63, who for the most part are insured under the provincial hospital insurance plans.

The annual cost of these facilities today runs to the order of \$54 million compared with \$34½ million in 1956-57.

It was suggested, in view of the declining number of disability cases being cared for in these hospitals, the rising cost of operating hospitals today, the increasing use of expensive active treatment for housing domiciliary cases and the introduction of hospital insurance plans under which most of the veterans' allowance recipients are insured, that a reappraisal of the department's role in the operation of these institutions might usefully be undertaken.

The Glasco commission, at page 195 of volume III, has since made similar comments, and has in fact recommended gradual disposal of these facilities. Likewise, I know the subject has been under long and active study by Mr. Pelletier, the deputy minister, and Dr. Crawford and their associates in the

department. As the Chairman has indicated, I am sure they would like to speak to this matter this morning.

The CHAIRMAN: Mr. Pelletier.

Mr. PAUL PELLETIER (*Deputy Minister, Department of Veterans Affairs*): Thank you, Mr. Chairman.

The matter raised by the Auditor General in paragraph 90 of his report for the fiscal year ended March 31, 1963, and in paragraph 104 of his previous report is a matter of which we are not only aware but, indeed, we can find very little if anything wrong with the observations made by the Auditor General in this respect. He suggests quite properly that this matter should be reappraised by the department in view of the fact—and I am paraphrasing what the Auditor General has said—that we are less and less carrying out what was the original essential purpose of veterans' hospitals. This reappraisal, as I am sure Mr. Henderson knows full well, has been going on for quite some time. This reappraisal preceded the Glassco commission report; it preceded my coming to the department; indeed it preceded Dr. Crawford's coming to the department. I think it was under his predecessor, Dr. Warner, that in view of the fact that the patient load in our hospitals was becoming less and less interesting to the medical profession, making it more difficult for us to keep the kind of people we wanted, there was introduced a new regulation which allowed veterans who did not have any disability claim to be admitted to our hospitals on a paying basis. Indeed, this worked for a while, and it is a matter on which the Auditor General has made observations in the following paragraph, to which we will come later.

This enabled us for a while to do what it was intended to achieve, to provide for the veterans who were entitled by law to treatment to get better treatment than they would otherwise have had. This, however, only worked for a time. As you might expect, following the Glassco commission report and indeed before, as I mentioned a moment ago, but more so after the Glassco commission report, we kept reviewing the matter which culminated, as you know, in statements of policy which were made initially by the Minister of Veterans Affairs in the House of Commons on March 16 and which were further elaborated upon by the Prime Minister in Winnipeg on May 18 at the convention of the Canadian Legion at which time the Minister of Veterans Affairs also spoke again.

The long and short of this policy is that discussions have been going on between the Department of Veterans Affairs and a certain number of non-federal jurisdictions to see whether by some change in operation we could improve or at least maintain the quality of service given veterans. To date these discussions have resulted in only one formal agreement, with which I think you are familiar; that has to do with the veterans' home in Edmonton which involved the turning back to the province of the old government house which the province wished to use as a centennial project. In return for this, a nursing home of 150 beds is being built as opposed to the 75 beds which are in the old government house. This will be turned over to the Department of Veterans Affairs when completed and will be used by the department for so long as it is needed. This, of course, is a nursing home and not a hospital. The Auditor General primarily is addressing himself to active hospitals.

Discussions are going on with regard to other hospitals. I am not at liberty to say which because none of these have been concluded yet. However, we are very much aware of this problem, and until such time as different arrangements can be made the best we can do is see to it that our active treatment hospitals are used to the best possible advantage.

Mr. Chairman, I do not think I have anything to add on this particular section at the moment. It might be more useful and more fruitful for the committee if Dr. Crawford and I expose ourselves to your questions which I have no doubt will be intensive and probing and, I hope, as humane as the carrying out of your duties will allow.

The CHAIRMAN: Thank you. This is a particularly humane committee; there is no doubt about it.

Mr. WINCH: I wonder whether the deputy minister could obtain for us the number who are hospitalized in veterans' active treatment hospitals from the Canadian penitentiary service; also would he advise us whether a charge is being made by this department against the penitentiary service, and if so in what amount? I would like that for information.

Dr. J. N. CRAWFORD (*Director General, Treatment Services, Department of Veterans Affairs*): I can give you an inclusive figure which includes the people from penitentiaries; it also covers some sick mariners who come to us; these are responsibilities of federal departments other than the Department of National Defence. These penitentiary cases, plus sick mariners, account today for 95 patients in departmental hospitals, 1.4 per cent of our total patient load. This figure is in the order of magnitude it has been in for many years. For example, in 1960 we had 76 representing .9 per cent of our patient load at that time. These federal departments do pay us for the service we provide.

Mr. WINCH: Could you give the approximate figure showing how much is received? Are they charged on a varying basis across Canada?

Mr. CRAWFORD: No. We charge a flat rate for hospitalization, medical and surgical care.

Mr. WINCH: That would be about what?

Mr. CRAWFORD: It amounts to about \$20 odd a day.

Mr. WINCH: Thank you.

Mr. RYAN: Mr. Chairman, I would like to ask Mr. Pelletier what happens in the case where war veterans' allowance recipients are insured by provincial governments. Do these insurance plans pay the \$20.21 a day in active treatment cases?

Mr. PELLETIER: Not quite. In the case of war veterans' allowance recipients who are insured, in many cases we pay the premiums for these war veterans allowance recipients. They are insured; they receive the full hospitalization benefits. The medical expenditures involved are met by the department. I should say, perhaps, that we are not obligated in law to assume responsibility for these expenditures, but in fact we do.

Mr. RYAN: You say "they received". Do you mean that the veterans received it?

Mr. PELLETIER: No, the hospitals.

Mr. WINCH: I have one more question for information. Is it possible for us in trying to obtain an understanding of paragraph 90 to be given the percentage of occupancy in your various veterans' hospitals? What was the original intent of the veteran, and what is the occupancy basis, and on that basis, what is the percentage of total occupancy in your hospitals?

Mr. PELLETIER: I shall ask Dr. Crawford to answer your question in detail but in general you will notice in the Auditor General's report, which was written some time ago for the year 1962-1963, that in the sixth line he mentions 0 per cent and 21 per cent. These figures are still correct as of August of this year. The figure of 17 per cent, to be quite candid with the committee, as

I am sure you would wish us to be, is now about 15 per cent as of August of this year.

Mr. WINCH: The reason I ask the question is this. Has there been any radical change in the last two years?

Mr. PELLETIER: Not in the first two figures. They have remained just about unchanged. However, if you want a more refined breakdown, Dr. Crawford can give it to you with respect to the various categories. These are the big categories which the Auditor General has picked out.

Mr. WINCH: I think the committee might also like to know if there is any difference, shall we say, between your hospitals in the east and your hospitals in the west, or is it the general picture all across the country?

Dr. CRAWFORD: I can answer that specifically with respect to any one hospital. It would take a little calculation to do so, but the figures are all here. I have them compiled on a system basis. There are some variations as between hospitals. But these variations are slight. In general the same sort of picture applies in Vancouver as applies in Halifax and every place in between. We have about 8,900 beds in departmental institutions.

For the purposes of calculation I think we should look at them as being of two kinds. We have two large institutions, one at Ste. Anne's, which is just outside Montreal, and the other being the Westminster hospital at London, Ontario. They are devoted largely to the provision of mental care, chronic committed mental patients. These are service incurred; they are mental diseases which have arisen out of wartime service. And there is a statutory obligation upon us to provide care.

So that in considering our patient load, I think we should look at it as a combined load including these mental patients. We should also look at it as a general treatment load excluding mental cases. Because it is really the general beds which are under the spotlight, so to speak, at the present time. However, in our combined load in August—or let us go back to March which is a high occupancy month—at the end of last fiscal year, we had just under 7,000 patients in departmental institutions.

At that time—and this is the combined load including mentals—15 per cent of them were pensioners with service incurred disabilities. Four per cent of them were serving members of the armed forces or the R.C.M.P., which is also a statutory responsibility on the federal government, and 21 per cent were war veterans' allowance cases receiving more or less active treatment. I say "more or less" because although they have chronic disease, they require a great deal of nursing and care. Forty and one half per cent were under domiciliary care, which does not mean that they were boarding with us. Do not misunderstand it. They were sick men and had some medical reason to be there. But they were cases for which little could be done, or needed to be done medically. And 13 per cent in March were elective cases, patients who had come into veterans' hospital, rather than going to community hospitals; they elected to come into our hospital, paying all or part of the costs of the treatment. That is the combined load.

Suppose we take the general treatment load, excluding mental cases, we now find that 8 per cent of our patients in these general beds are there for the treatment of service incurred disability; 5 per cent are armed forces; 20 per cent are war veterans' allowance recipients; 46 per cent are chronic or domiciliary care cases; and 15 per cent are elective cases.

Does that answer your question?

Mr. WINCH: Yes. May I just follow that up with one other question?

I am interested in your statement that 46 per cent are chronic cases.

Mr. CRAWFORD: No, that is not quite the case; they were chronic or domiciliary cases.

Mr. WINCH: I think this raises an important point. What is the difference between your bed load, say, at the Shaughnessy hospital in Vancouver and the George Darby hospital in Burnaby.

Mr. CRAWFORD: For the purpose of these figures the George Darby is part of the Shaughnessy hospital; it is an administrative unit of the Shaughnessy hospital so the George Darby load is included in the figure for the Shaughnessy hospital.

Mr. WINCH: Is there not a difference with regard to the type of patient who goes to the George Darby and the type of patient who goes to the Shaughnessy?

Mr. CRAWFORD: There is a difference in construction.

Mr. WINCH: And is there a difference in the type of patient?

Mr. CRAWFORD: The George Darby hospital is solely devoted to domiciliary care. To get into the George Darby one must be able to get around sufficiently to go for meals and so on.

Mr. WINCH: Have you any vacancies in the George Darby?

Mr. CRAWFORD: Yes. The occupancy of the George Darby is running at something over 80 per cent.

Mr. WINCH: Eighty per cent occupancy in the George Darby itself? What is the occupancy, according to your latest figures, in the Shaughnessy hospital?

Mr. CRAWFORD: About the same. I had about 900 patients in Shaughnessy hospital, including the George Darby. The total capacity is about 1,200 beds.

Mr. WINCH: Then if you still have 80 per cent—

Mr. CRAWFORD: Approximately.

Mr. WINCH: —of bed occupancy in the Shaughnessy may I ask why there should be any consideration of a change in administration or a change in policy as between a provincial and/or federal jurisdiction or something else? For the purpose of this, 80 per cent would strike me as being not such an extraordinary situation that it would call for a change in policy, administration, authorization, and so on.

Mr. PELLETIER: Mr. Winch, you are now covering the whole field of veterans' hospital policy.

Mr. WINCH: You understand, sir, the reason for which I am bringing this up? I know British Columbia and I know the Shaughnessy.

Mr. PELLETIER: That is right. Unfortunately, Mr. Winch, I do not know Shaughnessy too well; I will, but I have not been in the department very long.

May I take another hospital as an example to give you an illustration which may answer your question? At the moment in Sunnybrook hospital, which is a good active hospital—and a large one, as you know—there are approximately 250 domiciliary care cases. Granted, you may say that that is not a very large number in view of the fact that the total bed capacity of Sunnybrook is 1,470. However, there are 250 people there who are taking up beds which might better be used as active treatment beds. To get back to your point, we are interested in running good hospitals. The Auditor General is interested in seeing to it that the money is well spent.

I must confess this is expensive care for those 250 people. This is a situation which is getting worse rather than better. That is the reason, and the only reason, for which consideration has been given to a change in policy. With the increase in that type of patient load in hospitals, the over-all quality of medical care is bound to go down; and of course the veterans will suffer thereby.

The CHAIRMAN: I have on my list of those wishing to put questions to the witnesses Mr. Francis, Mr. Harkness, and then Mr. Rock.

Mr. FRANCIS: I think Dr. Crawford has answered most of the questions I had in mind. But I would like just to fill out the gaps with regard to the 46 per cent chronic or domiciliary care cases, the 20 per cent veterans' allowance cases and the 17 per cent disability cases. I think the rest were electives.

The question to which I would like to return, Mr. Pelletier, indicated that one institution has been turned over by agreement in accordance with the new policy the minister and the department are trying to put into effect. I think I would be concerned if we had not some reason to expect that we would turn over more than one institution. There are some very fine institutions developed under D.V.A., and the federal government has paid the capital cost. I wonder if we could have some indication whether we can expect any further agreements and what are the difficulties in arriving at agreements with the communities concerned or the provincial authorities concerned?

Mr. PELLETIER: You will appreciate, Mr. Francis, that I can only answer that question in most general terms because I certainly would not wish to place myself in the position of violating any confidences.

Before we contemplate any change of jurisdiction we must ensure a number of things. We insist: first, that we shall have priority use of the number of beds we need for those veterans for whom we are responsible by statute; second, that provision be made for those veterans who are in need of domiciliary care, such as the 250 I mentioned in Sunnybrook; third, that adequate provision be made for war veterans' allowance recipients for whom—although we have no statutory responsibility—the federal government has assumed a certain moral responsibility. Provision must be made for these people. Finally, we must ensure that our staff, who are excellent and who have rendered very good service indeed, are fully protected in any changeover.

If all these conditions can be met—and these form the basis, the bedrock, on which we base all our discussions—then we are prepared to contemplate changeovers.

As I mentioned a moment ago, there are discussions going on with respect to a number of institutions, but I am not now at liberty to say which ones. All I can say is that in all probability some of these discussions will come to fruition in the not too distant future.

The CHAIRMAN: Mr. Harkness.

Mr. HARKNESS: What is the basis of the entitlement of the 40 per cent domiciliary care patients? what proportion of these people are people who, because of war disabilities, are entitled to treatment but are being treated for something other than the particular disability for which they draw their pension? In addition to people of that kind, what type of patient constitutes the rest? What is the basis of their being in the hospital?

Mr. PELLETIER: I do not know if Dr. Crawford can give you a detailed breakdown, Mr. Harkness, but by and large these domiciliary care patients are made up of war veterans' allowance recipients.

Mr. CRAWFORD: In very general terms and on the basis of a spot check in one of our hospitals several months ago, we have found that 77 per cent of the people were there by virtue of being recipients of the war veterans' allowance. The other 23 per cent were divided roughly equally between people in receipt of disability pensions, and therefore eligible for this type of care, and those who were coming in and paying us for domiciliary care at a rate of up to \$4 per day. This is the maximum rate that we can charge for the provision of domiciliary care.

I think it is only fair for me to tell you that our cost of providing domiciliary care are now in the order of \$9. We can charge up to \$4 now if a man can afford that; if he cannot afford it, he may get in for nothing.

Mr. HARKNESS: You state here, you see, that the domiciliary care people constituted 40 per cent and war veterans' allowance people constituted 21 per cent.

Mr. CRAWFORD: I thought I had clarified that, Mr. Harkness, when I said the 20 per cent war veterans' allowance recipients were receiving more active treatment.

Mr. HARKNESS: So far as this 40 per cent is concerned, then, did you say 23 per cent were people who were entitled to be there because they were disability pensioners?

Mr. CRAWFORD: No, no one is entitled to domiciliary care. The provision of domiciliary care is entirely a matter of discretion. The department is allowed to exercise discretion in the provision of domiciliary care within the number of beds that we have available. They are there because they are recipients of a war veterans' allowance, or they are there because they are pensioners or because they are paying their own way.

Mr. HARKNESS: However, is a pensioner not entitled to hospitalization?

Mr. CRAWFORD: He is entitled to treatment for his service incurred disability. This is his statutory entitlement. If a man has a gunshot wound in the arm he is entitled to treatment for that gunshot wound. For anything else what happens to him we give him favourable consideration because of his service incurred disability; but his entitlement is limited to his service incurred disability, whatever that may be.

Mr. HARKNESS: Do you not get into an area in which it is very difficult to say whether his need for hospital care is due to a particular disability which he got directly as a result of his service or not?

Mr. CRAWFORD: I maintain it is very simple professionally, medically, to make this distinction. I know that my political friends do not agree with me many times, but nevertheless it is a very simple decision to make.

Mr. HARKNESS: But—leaving politicians out of it!—most veterans organizations would make a very strong case that this was so, would they not?

Mr. CRAWFORD: Let me put it in another way, Mr. Harkness. I will say that anyone with the proper knowledge of the condition finds it easy to make the decision.

Mr. HARKNESS: Would you not agree that there is also some difference of opinion as far as medical men are concerned in regard to these cases?

Mr. CRAWFORD: Not really, no.

Mr. HARKNESS: No?

Mr. CRAWFORD: Not really. There are disputes, of course, in two areas. There are disputes with regard to whether a man's disability is a result of his wartime service. This applies particularly, I think, in the area of psychiatric disabilities, but by and large there is little dispute, an absolute minimal amount of dispute, with regard to the connection between a service incurred disability and some condition which has arisen subsequently. They are usually pretty clearcut—there is or there is not a connection.

Mr. HARKNESS: I did not get clearly the numbers of the psychiatric cases concerned.

Mr. CRAWFORD: As of August of this year, for example, in this mental group I had approximately 950 in departmental institutions. That is the total figure.

Mr. ROCK: Of that 950 how many would there be in Ste. Anne's hospital?

Mr. CRAWFORD: Approximately 400.

Mr. HARKNESS: Are these two hospitals devoted to mental or psychiatric cases completely filled or are there any spare beds?

Mr. CRAWFORD: In both instances we have overflowed the confines of the mental infirmary and we have some mental patients—under control, of course—in other parts of the hospital.

Mr. HARKNESS: Is there a need for more hospital beds for mental patients than you are able to provide at the present time in your psychiatric institutions? That is what I wanted to know.

Mr. CRAWFORD: I must ask you in what sort of population you mean "need". In service incurred mental disease, no.

Mr. HARKNESS: What I want to know is whether there are more people requiring this type of medical treatment which you have said is a statutory requirement than the number for whom you have beds in those two institutions? You have said it is a statutory requirement to look after these people.

Mr. CRAWFORD: No, I have plenty of beds to fulfil the statutory requirements.

Mr. PELLETIER: I think there may be a little confusion here, Mr. Harkness. Of the total number of mental patients we have, not all are our statutory obligation.

Mr. CRAWFORD: No, indeed not.

Mr. PELLETIER: Many of these cases are not service incurred mental cases; in many instances they happen to be veterans in receipt of war veterans' allowance who happen to be mental cases, and we take care of them. If you consider the beds we need for those mental patients who are our statutory responsibility, we have all the beds we need.

Mr. CRAWFORD: I told you, for example, that there are approximately 900 beds in our institutions for mental patients. Only approximately 500 patients are there as a result of service incurred mental disease.

Mr. HARKNESS: This would be another area in which, I think you would agree, there would be a big difference of opinion among psychiatrists on the question of whether or not the mental disability was a result of their service.

Mr. CRAWFORD: I think it is fair to say that this has been the biggest area of dispute, probably, and for very obvious reasons. However, it is also fair to say and should be said that the dispute with regard to whether a mental disability is a direct result of service has been getting less and less vociferous as the years have elapsed since the end of the war. This may have had considerable validity from, say, 1945 to 1950 but I think there has been little validity to this argument since 1950 or thereabouts.

Mr. HARKNESS: What is the amount charged to veterans who were in the institutions for treatment on a voluntary basis?

Mr. CRAWFORD: All these people are insured under provincial hospitalization schemes and we are paid by the schemes for their hospitalization so the veteran is charged nothing. He may be charged a medical fee by his attending part time doctor, and doubtless we will be coming around to this later on this morning. This is a matter between the doctor and the patient.

Mr. HARKNESS: You used to charge a flat fee for people of this kind. Do you not do that any more?

Mr. CRAWFORD: No, because the advent of hospital insurance plans has relieved us of that necessity. We are paid by the provincial hospital commission for the services we supply.

Mr. HARKNESS: Then we will say that you charge separately for the medical service you give, depending upon the purpose for which the man has gone into hospital? If it is an operation of one kind you charge so much and if it is an operation of another kind you charge a different amount?

Mr. CRAWFORD: I make no charge at all; the department makes no charge at all. This is purely a matter between the attending physician and the patient. These are people who elect to come to our hospital rather than going to a community hospital, and they are treated in exactly the same way as if they had gone to a community hospital.

Mr. HARKNESS: The old flat fee basis to cover all the medical costs has gone?

Mr. CRAWFORD: This has gone.

Mr. HARKNESS: How long is it since that was eliminated?

Mr. CRAWFORD: Since the advent of the hospital plans. I think the first one was about 1958 or 1959.

Mr. ROCK: Around what year did this domiciliary care service start? You mentioned that you have no obligation to give this domiciliary care. I would like to know exactly what year this service started.

Mr. CRAWFORD: I cannot answer that exactly. I think even before world war II there were some elements of this sort of care in department of pensions and national health institutions. What was the basis of entitlement to this care or eligibility for this care I cannot tell you. Immediately after world war II our hospitals were filled with people returning from the war in need of active treatment, and there was little if any domiciliary care at that time. It was about 1948 that we began to get an increase in the proportion of domiciliary care in our hospitals, and this has progressed fairly steadily ever since. Because it is discretionary, we have managed to hold it somewhere between 40 and 45 per cent of our total occupancy.

Mr. ROCK: You mentioned previously the change of jurisdiction in respect of Sunnybrook hospital and that it would be run by the provincial authorities. You have no set policy in this regard; in other words, Sunnybrook hospital is one case. Ste. Anne de Bellevue would be another, and Queen Mary another. Each one would be a separate case.

Mr. PELLETIER: That is right. For obvious reasons, the jurisdictions which may or may not take over the operation of these hospitals would be different; there would be different statutes, different regulations, and so on. The patient load is different and the institutions are different. You mentioned Sunnybrook hospital and Ste. Anne de Bellevue. Those are two vastly different places. Sunnybrook hospital is an active treatment hospital, although we do have some domiciliary care patients there. Ste. Anne de Bellevue, on the other hand, is partly mental, about 350 beds out of a total of 1,200 beds; the remainder largely is made up of chronic and domiciliary care cases. Conditions may be vastly different from institution to institution.

Mr. ROCK: In certain areas where you have two or three hospitals, for instance in the Montreal area,—

Mr. PELLETIER: We have two there.

Mr. ROCK: —can we be assured that in an area like this you would combine the two hospitals into one before you would put the two hospitals under the jurisdiction of the provincial authorities?

Mr. PELLETIER: Here again it is virtually impossible to generalize. What we endeavour to do in each case is to achieve an end product which will produce the best result for the veteran; that is, which will provide him eventually with the best care. In some cases a combination of the kind you mention may be the answer; in others it may not be. Each case will have to be looked at individually to see what is the best plan in that particular case.

Mr. ROCK: In other words, your department does not have the intention of, say, following the trend of working towards the end where your department

would give up completely the running of these hospitals. Has your department any intention of getting rid completely of the running of the hospitals?

Mr. PELLETIER: Here again you cannot give a categorical reply to that; it cannot be a categorical yes or a categorical no. If, by turning over the operation of our hospitals we will achieve the results we want, we will do it; if not, we will not do it. I cannot answer that in any other way.

The CHAIRMAN: I suppose when you get into such a discussion it really is a matter of government policy.

Mr. PELLETIER: In the final analysis, definitely, Mr. Chairman.

Mr. PRITTIE: I was going to make the same comment. It seems to me we are taking the remarks of the Auditor General concerning a particular department and questioning an official of the department on these remarks. The Auditor General has questioned the amount of chronic or domiciliary care in veterans' hospitals as opposed to acute cases, and the department is well aware of this situation and is doing something about it. It seems to me the question of whether or not the department's policy is correct, or whether it should be the type of arrangement it is, is not a question for this committee, but rather a question for the veterans affairs committee.

The CHAIRMAN: The only exception would be that this discloses a certain set of facts and I have no doubt the questions and answers here will be of use to the government, the department, and, of course, to members; this primarily is our reason for being here and asking these questions.

Mr. CARDIFF: I would like to ask Dr. Crawford a question with regard to an answer he gave a while ago to Mr. Harkness when he stated there was no difficulty for a doctor to tell whether a person's disability was caused by active service. I have had a good deal of experience with veterans who have come back from the war who, in a great many cases, have something which they claim was caused by active service, but when they go to the veterans' hospital, they do not get any satisfaction from the doctor. When a man is taken into the army as A-1 he is supposed to be in first class condition and yet when he comes out probably with a gun shot wound and something else develops he is told it is not due to active service. How can you be sure of it?

Mr. CRAWFORD: I do not think your question actually follows on my first statement. However, I do think I must remind you that this is not a decision which I as director of the treatment branch, or any of my physicians in the treatment branch, are called upon, or authorized, to make. This decision is made by the Canadian Pension Commission which decides, after consideration of all the evidence, whether a disability is or is not connected with wartime service. I do not make that decision. So long as I have any discretion in the matter, I can provide treatment on the assumption that it is going to be related to service, but once a decision is made by the Canadian Pension Commission I no longer have discretion.

Mr. CARDIFF: It is out of your hands?

Mr. CRAWFORD: It never has been in my hands.

Mr. CARDIFF: I am not a doctor, but I run into many cases where there is no doubt in my mind that the person had this condition before he was out of the army. Perhaps I am wrong.

Mr. CRAWFORD: If we could be as sure as the people who carry the torch for some of these veterans, life would be much simpler for us.

The CHAIRMAN: Mr. Anderson, the chairman of the Canadian Pension Commission, will be here.

Mr. CROUSE: What is the statutory provision for medical care for war veterans' allowance recipients?

Mr. CRAWFORD: There is none. This is done by an order in council whereby the governor in council permits us to provide medical care for war veterans' allowance recipients. No mention is made of this in the War Veterans' Allowance Act.

Mr. CROUSE: It is not under any statute.

Mr. WINCH: May I ask a supplementary question? Would there be any advantage to your administration and your decisions if this care was made statutory?

Mr. PELLETIER: Mr. Winch, I do not think you honestly expect me to answer that question, because this goes back to fundamental policy which is a matter for government decision. As Dr. Crawford said, this is done not under the War Veterans' Allowance Act, in which there is no provision whatsoever, but is done under the Department of Veterans Affairs Act in which there is a very general provision which enables the governor in council to make regulations for the care and treatment of veterans. I think it is just as loose as that. An order in council was passed, and it is a perfectly legal order in council. I do not feel at this point that I can or should answer your question more precisely.

Mr. HARKNESS: When was this order in council passed?

Mr. PELLETIER: In 1948.

Mr. HARKNESS: That was in consequence of the sort of general promise that was made to the effect that medical treatment would be provided for veterans, was it not?

Mr. CRAWFORD: I am not aware of any such promise. I have heard it referred to many times. Maybe it is so. However, I cannot tell you the reason; the understanding which I have obtained from reading the past history of this thing is that the War Veterans' Allowance Act provides for veterans who are indigent and they are given an allowance in order to provide them with food, shelter, clothing, and the other necessities of life. It seemed perfectly reasonable they also should be provided with medical care. This is the only basis I can find for this.

Mr. HARKNESS: I have not read the evidence given at the veterans affairs committee of 1945 and 1946 when the veterans' charter was produced, but I have a very distinct recollection of a considerable amount of discussion there at that time and statements on the part of the Hon. Ian Mackenzie and other people with regard to the provision of medical care for these people.

Mr. CRAWFORD: The way this was reflected was that all veterans on returning to Canada would receive medical attention which they required for a period of one year. This was to enable them to become rehabilitated and get back into civilian life. That was done.

The CHAIRMAN: We might be able to obtain a copy of the order in council in question, and it might contain in it some information which would show the base on which it was passed.

Mr. WINCH: That would be interesting.

Mr. HARKNESS: As I say, there were discussions, statements, and guarantees made in the veterans affairs committee in 1945, 1946 and 1947 when the whole matter of the veterans was under discussion.

Mr. WINCH: I would take it, from the answer we have been given on this matter, that if this policy or action by the department is by order in council which is legal, then you do have the statutory authority.

Mr. PELLETIER: Well, yes; delegated statutory authority, if you like. What we mean is that it is not written into the law.

Mr. FRANCIS: Surely an order in council is not a statute.

Mr. McLEAN (*Charlotte*): I would like to ask Dr. Crawford whether the various hospital schemes in the provinces cover any domiciliary care for the veteran?

Mr. CRAWFORD: In general, Mr. McLean, no. Some provinces cover chronic cases as an insured service, and all provinces cover acute cases. Some provinces cover the chronic cases as an insured service, but so far as I know no province covers domiciliary care as an insured service. Some provinces, notably Alberta, will heavily subsidize nursing home care so that the effect is almost that of having it an insured service, a half insured service, if you like.

Mr. McLEAN (*Charlotte*): Would you be subsidized by the Alberta government?

Mr. CRAWFORD: This has not been the case in the past because we, as a federal agency, have been pretty much on our own; we have been fairly independent of the Alberta operation. Under the new scheme I suspect that in this new institution we will be regarded as operating a nursing home for the benefit of citizens of Alberta who happen to be veterans, and therefore will be regarded in the same light as other operators of nursing homes.

Mr. McLEAN (*Charlotte*): What percentage of veterans are paying veterans?

Mr. CRAWFORD: This is difficult; I cannot give you an exact answer. However, in August 7 per cent of my total patient load was paying patients; that is, their hospitalization was paid for by a provincial plan and presumably they were paying their own doctors for the care provided. Another 8½ per cent have their hospital cost paid for by the provincial plan and they may or may not have received bills from their attending doctors because of the state of their finances. As doctors do not generally send bills to people who they do not think can pay, perhaps they did not send bills to 8 per cent; but again I do not know, because I do not send the bills. This is a matter between the doctor and patient. So, about 15 per cent of the patients in our hospitals were paying patients to some degree or other.

Mr. McLEAN (*Charlotte*): I think a lot of the general public think all veterans get free service.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will move on to paragraph 91. This is a point on which both Mr. McLean and Mr. Harkness have touched. This paragraph has to do with employment of part time doctors by Department of Veterans Affairs.

91. *Employment of part time doctors by Department of Veterans Affairs.* In paragraph 106 of last year's report attention was drawn to an administrative problem resulting from the extensive staffing of Department of Veterans Affairs hospitals with part time doctors retained on a negotiated fee basis, with no clearly defined terms of employment, to complement a nucleus of full time medical personnel employed by the department. The problem related to the status of funds derived from fees for services provided by the medical staff to patients who had been admitted to the hospitals on a paying basis, and this had become of greater significance because of the growing volume of paying patients arising out of the broadening of the treatment regulations in recent years. The department, while forbidding full time salaried employees to participate, had permitted the part time doctors to make billings for services to such patients—encouraging them, however, to use the proceeds for purposes that would benefit the hospitals in which they were employed (although at some hospitals the part time doctors formed

associations to bill patients and divided the proceeds among themselves and in some instances full time doctors became sharing members).

We reported last year that the department had proposed that a solution to the problem might be the creation of a special fund under its control to which would be credited the proceeds from fees for services rendered paying patients by both the part time and full time doctors, the proceeds to be used for purposes specified by the department, including the purchase of books for the hospital library and payment of expenses incurred by the hospital staff while attending scientific or similar meetings of benefit to the hospital. The audit office view was that, although there appeared to be merit in this approach in comparison with the former procedure, in that the department would be in a better position to control the situation, parliamentary authority would be required for the establishment of the special fund as the proceeds from this source were public moneys and the department's proposal would not meet the requirements of the Financial Administration Act regarding their disposition. Our reasons for the view were: (a) full time doctors are public servants and any fees deriving from their services with the department are public revenues, (b) there was no evidence that the annual negotiated fees for part time doctors were to be with respect only to services rendered to patients entitled to free treatment, and (c) moneys collected arose from services undertaken in departmental hospitals using hospital facilities. We reported that the matter had been directed to the attention of the treasury board and that the general problem and the department's proposed solution were under study by the board.

The treasury board's study resulted in the issuance of order in council P.C. 1963-35/890 of June 13, 1963. This order makes it clear that departmental payments to the "half-day" doctors are for services rendered to all persons admitted under the provisions of the Veterans Treatment Regulations except those admitted under sections 13, 14, 23, 24 and 25 (the paying classes of patients) and also makes available departmental facilities, without charge, to doctors employed under the order for the treatment of paying patients. Thus the part time doctors remained in the position of being able to bill patients under the payment sections.

While the order removes doubts regarding some aspects of the problem, in that it sanctions the use by part time doctors of departmental facilities without charge and clearly defines the terms and basis of employment of the part time doctors, it does not recognize the fact that there is no practical way to distinguish between the amount of service rendered paying patients by part time doctors on the one hand and full time doctors on the other. Services provided such patients, nominally assigned to part time doctors, almost inevitably involve the services of full time salaried practitioners. Thus, in effect, there is a government subsidy: either to the part time doctor, if he bills in accordance with the provincial schedule of medical fees for the treatment given (including treatment by salaried departmental medical officers); or to the patient, if the fee billed by the "half day" doctor is reduced to allow for services provided by salaried departmental officers (since this reduction would not be available to him in other hospitals).

An associated administrative problem, which has existed for some time and was not resolved by the order referred to above, relates to the determination of time spent in hospitals to arrive at the number of half days of attendance which forms the basis of the departmental

payment to part time doctors. This order, as did previous orders, provides that payment for professional services rendered shall be on the basis of a fee for "each half day of attendance or the equivalent thereof". The department has, however, never paid fees on the basis of actual time worked, having always regarded the half day basis more as an administrative device than an actual method of control. Indeed, the recent order makes the keeping of time records almost impracticable since it requires that the time spent in the hospital be allocated between service to paying patients and service to patients for whom the department is directly responsible. While payments to the doctors are made monthly, ostensibly on the basis of attendance or services rendered in the month, in practice the "half day" doctor is engaged on the basis of an annual honorarium the amount of which is negotiated between the doctor and the department based on the department's estimate of the value of the services to be rendered and the funds available for these purposes. Thus the "half day" payment to a doctor may not bear any close relationship to the time actually spent in providing the services.

Would you like to make a comment on this, Mr. Henderson?

Mr. HENDERSON: This subject, the employment of part time doctors by the Department of Veterans Affairs, was covered in paragraph 106 of the 1962 report and paragraph 91 of the 1963 report. In the fiscal year 1962 we observed that part time doctors employed by the Department of Veterans Affairs on a negotiated fee basis were at the same time charging paying patients in Department of Veterans Affairs hospitals. We took the view that such charges made by the part time doctors constituted public funds and therefore should be handled in accordance with the requirements of the Financial Administration Act; that is to say, the part time doctor, paid by the federal government for part time service, bills the patient and receives money from the patient.

Mr. WINCH: You mean, they collect twice?

Mr. HENDERSON: To oversimplify it, that is the point.

We also questioned the basis of the fee payments being made to the part time doctors on which the orders in council were not specific.

Following discussion of the matter with the officials of the department two years ago, we suggested it be referred to the treasury board for clarification. The problem is a difficult one administratively, as Mr. Pelletier and Dr. Crawford will themselves be explaining to you.

The meeting with treasury board resulted in the issuance of P.C. 1963-35/890 of June 13, 1963. But like its predecessor, the order in council sets out that part time doctors are to be paid on the basis of a fee for each half day of attendance or the equivalent thereof.

In point of fact, the department has never paid these doctors on the basis of actual time worked, having always regarded the authority provided in the order as merely a convenient administrative device by which to vary the payments to different doctors in a way that bears some relationship to the respective value of their services to the department. This provided a degree of administrative flexibility which, though desirable from the standpoint of the department's senior officers, was not compatible with the basis of payment outlined in the order.

The new executive order does, however, authorize the part time doctors to bill paying patients. It is, however, difficult to understand how the revised order in council can operate either to control employment of part time doctors or to clarify the revenue picture, because

if it is to be effective the following assumptions must be made which are not in accordance with actual operating conditions:

- (1) that part time doctors are employed to treat specific classes of patients, i.e., that they do in fact keep a record of time spent on classes of patients that are the responsibility of the department on the one hand and the paying classes on the other; and
- (2) that it is possible to separate the value of services rendered patients in general by full time doctors and part time doctors when they in fact act as a team.

My officers and I believe the executive order should be amended and reworded so as to recognize and deal with the actual operating conditions as they exist and function in the hospitals. The question as to whether or not the fees collected by the doctors from the paying patients constitute public funds which should be paid back to the crown is one on which I propose to obtain legal opinion when I am in a position to do so.

I suggest, Mr. Chairman, that perhaps Mr. Pelletier and Dr. Crawford might like to take over at this point, because this has been the subject of discussion between us.

The CHAIRMAN: Mr. Pelletier, would you care to make a comment?

Mr. PELLETIER: As simple as paragraph 90 was, as complex this one is. It is an immensely complicated problem. I know that the Auditor General and the Director General of Treatment Services have had it under discussion on many occasions. There are really I suppose four main points which the Auditor General has raised in this paragraph. First of all, what should be done with the funds derived from the fees for services? Second, he points out that there may be some form of subsidization of the doctor, because of the free use of our hospital facilities. Third, there may be some form of subsidization of the patient, and finally, the lack of control of the time actually spent by the part time doctors on some of the patients in our hospitals.

I would like to begin by making a general statement or comment. The Auditor General is quite properly concerned with seeing to it that there are sound and good accounts kept of the manner in which our hospitals are operated. On the other hand, we are concerned primarily with running first class hospitals for veterans within reasonable costs. In other words, what I am trying to say is that the aims which the Auditor General is trying to achieve and the aims which we are trying to achieve are almost diametrically opposed. I do not suggest for a moment that we are trying to operate the best possible hospitals regardless of cost. Far from it. What we have been trying to do is to find the best possible means to achieve both ends. We are still convinced that the manner in which we presently operate is the manner best designed to achieve these purposes.

Mr. Henderson referred to an order in council which was passed in 1963 which governs part time doctors. The rates laid down in that order in council have since been amended. What we actually pay now is on a half day basis, \$20.00 a half day for a general practitioner, and \$40.00 per half day for a specialist, with a ceiling of \$9,500.00 in any year for the general practitioner, and a ceiling of \$11,500.00 in any year for the specialist.

At the moment, in order that you may have an over-all picture of what is involved, we have 155 full time doctors, and 855 part time doctors. Of this latter figure, of the 855 part time doctors, 88 are general practitioners and 767 are specialists.

Now, if we control the time actually spent by the doctors on our patients, in other words, if we attempt to run a punch or time clock operation in our

hospitals, what we would quite rapidly develop is a situation where we would be unable to retain the first rate doctors we now have—and we do have first rate doctors. We work very closely with university medical faculties and we do have some of the best medical brains in the country working for us. But I am convinced that if we tried to impose a one to five sort of thing, where you had to punch a clock, we would just lose these people. We would only be able to attract the kind of doctors to whom you and I would not wish to entrust our families. I would think that in the long run—although we can not prove this with a slide rule—we would spend more money than we are now spending, and we would certainly not give as good care as we are now giving.

With regard to the charging of fees for services rendered, we have laid down a rule in our hospitals that full time doctors are not to indulge in that practice. They are paid a salary which varies. For the general practitioners the minimum is \$11,000, up to \$19,000 maximum, and for specialists from \$16,000 up to no fixed ceiling.

I do not think we have any full time specialists getting more than \$19,000. As a matter of fact they are paid on a full time basis.

Now, part time doctors are allowed to do this. What alternative can you think of? Even if we agreed with the Auditor General that this should be considered as public revenues, how are we going to administer it? Is the government of Canada going to get into the business of sending out bills and trying to collect from patients in a field which constitutionally is none of the federal government's business at all? It would make it, to say the least, completely unworkable, and would rapidly develop, I am afraid, into a pretty chaotic situation.

With regard to the subsidization factor, we all know doctors have to use operating rooms in general hospitals. The doctors do not get charged for it. The patient does. With regard to subsidization of the patient, we have mentioned in connection with section 90 the hospitalization insurance schemes. Our hospitals are treated on the same basis as any general hospital. We get reimbursed for hospitalization for all our veterans except disability patients, the armed forces, and those for whom the federal government has statutory obligations.

I cannot think, Mr. Chairman, of any alternative better than the one we now have. If one can be designed, we would be quite prepared to adopt it.

The CHAIRMAN: Thank you.

Mr. CARDIFF: Is there any supervision over the part time doctors at all?

Mr. PELLETIER: Yes; very much so. The senior treatment medical officer, who is our head doctor in each one of our institutions, keeps them under watch continuously and makes periodic reports to the director general of treatment services. And this in turn is taken very much into account when negotiating a fee basis. It means perhaps that this expression that the Auditor General has used may have led you into error. It is not a fee that is negotiated; it is the number of half days which any doctor will be allowed.

Mr. CARDIFF: I think if you had a proper supervisor, that is the best idea you could possibly have, because I do not care what doctor, lawyer, or politician you have, there are always some chiselers, in those group of people, no matter who they are, or what occupation they have. If there is any supervision over them, it should not be hard to catch those fellows, and to know who is putting it over and who is not.

Mr. PELLETIER: I could not agree with you more. I would not like to comment on the chiselers, but—

Mr. CARDIFF: You will agree that there are chiselers.

Mr. PELLETIER: —what I do not know is that we may have specialists, for example, in hospitals whom we retain, let us say, for two half days a week.

That is the basis on which we retain them. Let us say it is to be Tuesday and Thursday. But on a Tuesday, he may not be there at all, or only for an hour. However, there may be a Saturday night when he is there at 11 o'clock, or he is there on a Sunday morning. We rely on our men in the district to make periodic reports and to let us know, first of all, the quality of service rendered, and second, the quantity.

Mr. FRANCIS: I gather, as the Auditor General has pointed out in 1962 that this problem arose out of the opening up of veterans' institutions on a paying basis for elective classes, and before that you did not have this problem. Have you any idea how much money is involved? Are there any estimates prepared by the Auditor General with respect to funds? I know that in the 1963 report in some hospitals the full time doctors or the part time doctors forgo sending bills. How much money is involved? Is there any indication of a sum of money?

Mr. CRAWFORD: One of the troubles with this sort of discussion is that I would like to be able to say that the Auditor General was completely wrong and that we were completely right. But the unhappy position in which we find ourselves here is that the Auditor General is as right as we are in this business. I shall get around to your question in just a moment, but I do want to say this.

The Auditor General is particularly right when he says that this half day fee basis is nonsense, and it is a fiction. It is an administrative tool. In my opinion it is an extremely valuable administrative tool, and I shall explain why. In fact, when we are looking for a specialist to go to one of our hospitals, we go to the associated university and we say that we want, let us say, an orthopaedic surgeon. The university says: "We have got Dr. Jones who is a first class man and well trained. He is just getting started in practice. He is on the teaching staff of university. We think he would be an excellent man for your purpose." So we approach Dr. Jones and we say that we would like him to come down to the hospital, and that we would expect him to provide a service to the orthopaedic ward of the hospital for which we would pay him "X" dollars, that is, so much money.

Each year all these units of "X" dollars are added up and come to a total amount of money which the superintendent of the hospital has at his disposal for payment to doctors treating veterans who are federal responsibilities, and others. The Auditor General is quite right when he says that this is a negotiated rate in that we have told the man that we will pay him so much money.

But the man may become busier with his private practice, and he will say two or three years from now "I cannot give you that much service. I want you to get someone else to help."

The total service is still the same, so I can say to the superintendent at that time, "All right, if you want to take on another orthopaedic surgeon, go ahead in the same way, through the university. Now you have two. But I am not going to pay twice as much for them. You are still working within your ceiling." The superintendent then says how many half days will be payable to each. There is no contract. I do not want a contract, because our hands would be tied. This association we have gives you administrative flexibility to change upwards or downwards the amount paid to any part time doctor in any month in relation to the amount of service which he is supplying. It is an extremely valuable tool, and it works out for the federal government extremely cheaply, because if we paid these people on a fee for service basis, instead of on the honorarium sort of basis, I think it would at least double and perhaps treble the amount of money which is now being paid.

Now, to come to your question of how much money is involved, I do not know, because, as we have said, we know how many people we have got,

but we do not know how many of them get bills. We do not know how much money comes back to the doctor himself who sends them.

Mr. FRANCIS: Do I understand Dr. Crawford to say that in fact it is really no longer a fee for service matter?

Mr. CRAWFORD: It never has been a fee for service.

Mr. FRANCIS: I assumed at the beginning there was something in relation to it.

Mr. CRAWFORD: In the beginning this system started immediately after the war when the Department of Veterans Affairs was set up. Prior to that our medical service was provided either by full time people, or by part time people, all of whom were civil servants, that is, full time or part time civil servants. As a result, the rates were set by the civil service commission. We tried then to bring about a contract basis, but we were not able to get the kind of doctors that we wanted.

Mr. FRANCIS: Has the Canadian Medical Association or representative groups made any representations to you with respect to this problem?

Mr. CRAWFORD: Have they ever! At the very beginning when my predecessor introduced this concept of admitting elective cases to our hospitals, obviously one of the agencies which had to be consulted was the Canadian Medical Association. The Canadian Medical Association agreed that we could admit to our hospitals and they would have no objection to our admitting to our hospitals citizens of the community who happened to be veterans provided that those citizens of the community were treated in exactly the same way as they would have been treated had they gone to a community hospital. And this is the reason for this medical fee business.

Now, Mr. Harkness mentioned that originally we included a flat medical charge for some of them, but we very quickly got out of that practice, and we got entirely into this situation where our hospitals for this purpose are exactly like community hospitals.

Mr. FRANCIS: This is my last question, because I do not want to take up too much time at this point. If the position of the Canadian Medical Association is that patients should be treated on the same basis in hospitals, what about the other side of the coin? Should not physicians be treated in the same way as if they were treating their patients in a community hospital? If a part time physician had 75 per cent or more people in the elective categories, is the department not concerned with the annual retainer that he should earn?

Mr. CRAWFORD: Well, yes indeed. The most recent order in council to which we have referred specifies—and this was brought up in the conversation with the Auditor General—the classes of patients for whom this retainer is being paid—in general the pensioners with service incurred disability; war veteran's allowance recipients, members of the armed forces, and of the R.C.M.P., for all practical purposes.

Mr. FRANCIS: There is no billing done in respect to these?

Mr. CRAWFORD: There is no billing done with respect to these, whatsoever.

Mr. FRANCIS: There is no extra bill in respect of those classes?

Mr. CRAWFORD: No extra billing whatsoever in respect of them. If we got to the point where the total of these three categories were reduced, then you would be right, we should reconsider the amount of this retainer that we pay. However, this category is not decreasing. The pensioners are decreasing but the war veterans' allowance recipients are increasing all the time and will continue to increase, so that only 15 per cent of our total patient load is involved in the paying categories.

Mr. FRANCIS: Dr. Crawford, you said that the war veterans' allowance component is increasing. Do you mean the active treatment phase of the war veterans' allowances and not the domiciliary phase?

Mr. CRAWFORD: Our chronic treatment and domiciliary care patient is also provided with the necessary medical attention, whatever it may be, at our expense.

Mr. RYAN: Mr. Chairman, I would ask Mr. Pelletier if it is not the case that most of these hospitals have X-ray and pathology laboratories.

Mr. PELLETIER: Yes, the active hospitals.

Mr. RYAN: And in this area do you have permanent staff, X-ray specialists and pathologists?

Mr. CRAWFORD: In the main all our radiologists—this is not entirely true because there are some exceptions—are full time, as well as our pathologists and anaesthetists, generally speaking. This, I suggest to you, is exactly the situation you would find in any community hospital.

Mr. RYAN: I am wondering whether you bring in specialists on occasion?

Mr. CRAWFORD: Oh, yes. For example, in Westminster hospital the chief of my laboratory service is a part time man. In Shaughnessy hospital the chief of my radiological service is a part time man.

Mr. RYAN: Do you have a regular staff in the X-ray department to service the private patients as well as the public patients?

Mr. CRAWFORD: Yes. Again the situation is similar to that in a community hospital. This sort of diagnostic service is an insured service under the provincial hospitalization scheme. This is part of the cost of hospitalization for which we are reimbursed by the provincial plan.

Mr. RYAN: But I take it that on occasion you do have a specialist who comes in and he has the same privileges in the X-ray department as any other specialist?

Mr. CRAWFORD: Not in pathology or radiology because this is a diagnostic service included under the provincial plan. They cannot send bills for this.

Mr. CAMERON (*High Park*): I want to get this thing clarified. As I understand, Dr. Jones whom you mentioned is an orthopaedic surgeon and he serves everybody in the hospital on a part time basis.

Mr. CRAWFORD: No, because the order in council specifies that we are taking him on for the care of service connected disabilities, war veterans' allowance, members of the armed forces and the R.C.M.P. This is the deal we make with him. He provides care for these people.

Mr. CAMERON (*High Park*): Are any of those paying patients?

Mr. CRAWFORD: None.

Mr. CAMERON (*High Park*): What is the problem then?

Mr. CRAWFORD: We do have 15 per cent of our patient load who are paying patients to some degree or another, and the Auditor General feels that this should be public money and come to the Receiver General of Canada.

Mr. CAMERON (*High Park*): But they are elective patients and he comes to them because they ask him to come.

Mr. CRAWFORD: Yes, I disagree with the Auditor General.

Mr. CAMERON (*High Park*): He bills them on the basis that they are private patients. He is not giving them the service he is being paid for on a part time basis.

Mr. WINCH: That is the very point on which I have a supplementary question. I am not quite clear on it. You have all these doctors on a part time basis, let us say it is for a half day or something of that nature. Is the doctor expected

for that half day for which he is being paid to devote his services and his time to those he is not going to bill? Are those he is going to bill in addition and on his own time to the half day that he is being paid for out of the federal treasury to take care of those who are definitely the direct responsibility of the department?

Mr. CRAWFORD: This is the point that the Auditor General makes. He says we are paying people on a half day basis and we do not know that they are there for half a day and we do not know what they are doing for the half day they are there. He is right, we do not know, but we do know this as Mr. Pelletier pointed out, if we are paying a man at the rate of two half days a month he is providing us with a valuable service. I explained that this is nothing more than an administrative tool. In fact, what we have done is to say to this doctor, "We want you to provide a service for certain patients and we will pay you so much." It is an honorarium. For administrative purposes we break it down into half day units. We do know this, that probably the doctor is not in the hospital two half days, as two distinct units of so many hours each at any time, but he is there every day in the week for an hour. He is there on Saturdays and he is there on Sundays. In other words, he is providing a service. Now, this authority for half day units has got us into a lot of trouble because the Auditor General does not like it. He says it is a measure of time and we are not measuring time. I agree we are not measuring time but I do say that this device gives me the administrative flexibility which enables me to get the best people I want to provide a service which is the best they can provide at a reasonable rate. I do not want to lose that administrative flexibility.

Mr. WINCH: I understand your explanation is that you are hiring a service and that service must be available, and that you are not concerned how much time he may spend on one category or the other as long as the service is available. Is that the basis of it?

Mr. CRAWFORD: That is entirely the basis.

Mr. CARDIFF: What constitutes a half day? Is it four hours?

Mr. CRAWFORD: I have no idea what constitutes a half day. The civil service week is constituted of 37½ hours, I believe. It is very flexible. If you want, I can change this and give an honorarium, but if I have contracted with a man to provide a service at a monthly rate or an annual rate, I have lost my ability to change my mind half way through.

Mr. CARDIFF: If at the end of the month he says he wishes to make up his time, what happens?

Mr. CRAWFORD: Time has nothing to do with this. He would never make up his time. If you are going to have a gall bladder out are you going to pay a surgeon more because it has taken him two hours than if it took him half an hour? Not a whit! You are paying for a service, and this is what I am getting.

The CHAIRMAN: I might ask a question here. Would it be possible, having in mind this is by order in council and does not require statutory amendment, for an amendment to be made to the order in council which, while retaining this system, would give a certain flexibility and would satisfy the Auditor General in that it would then have legality? Would it be possible for an amendment to be made? I am throwing this out as a suggestion.

Mr. HENDERSON: That is the point we are making. We believe that the existing order in council could be amended and reworded to give effect to the manner in which the department is administering the arrangement with respect to which we have no criticism at all. I think the description that has been given to the members by Dr. Crawford is an admirable one and pre-

cisely what takes place, but as the auditor of this institution we are of course bound by the wording of the order in council. I will quote from it:

Payment for professional services as provided in this order shall be on the basis of a fee for each half day of attendance, or the equivalent thereof, calculated as follows:

In another section mention is made of the paying classes which the doctors are able to bill. This order in council, as I mentioned, was intended to clarify the previous one, but it has not gone far enough for the reasons I have given.

May I be permitted to ask Mr. Douglas, who is familiar with the details, to say a word on this?

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): Mr. Chairman, as Mr. Henderson has said, we have no criticism whatsoever of the way the department is operating, and we certainly would not expect that the procedures be put on a time clock basis, as Mr. Pelletier suggests. We know very well that this is impossible.

There are several points I could make, however. One is that we had understood when we were discussing this matter with the department that it was in effect impossible to determine how much time is being spent by the half day doctors on various classes of patients. Indeed, as Dr. Crawford said, this is of no concern as long as they get the job done.

Furthermore, it is impossible to determine the split in service between the full time civil service doctors and the part time doctors because they do act as teams. Indeed, in the early days we were finding occasionally that the full time civil servant doctors were billing because they could see no reason why they should not bill if the part time doctors were billing. Of course, when we drew this to the attention of the department it was promptly corrected and appropriate action was taken to try to see that it would not occur again.

Another thing I would like to point out is that there is not an entirely normal private doctor-patient relationship in connection with paying patients who are treated in a veterans hospital. When they go into a hospital they accept the team of doctors which is there and inevitably—or perhaps I should not say inevitably, but often there are full time doctors who are civil servants involved in the treatment of these patients. Indeed, this was one of the reasons why the syndicates were formed to bill patients. It was because it could not readily be determined just who should do the billing and how the money should be split when the funds came in from billing the patients.

For this reason we felt there was indeed a problem about the nature of the revenues and about the propriety of the billings being made. We realized that it was not practical to follow the executive order, and we felt it should therefore be changed. It certainly gives the impression—or it gave the impression before and it does to some extent now—that one could go into a hospital, examine the records and determine the appropriate payments to the doctors, which of course is nonsense because there are no records. On some occasions the doctor shown on the payroll for a particular month was not even in attendance; perhaps some substitute doctor had been in attendance. It was impossible from an audit viewpoint to attack the problem.

The CHAIRMAN: I would just like to leave this thought with you. I do not know whether you have already done this, but possibly Mr. Henderson and Mr. Pelletier might be able to consider inserting into the order in council a proviso concerning the calculations of these amounts and certain authority on behalf of the department. In other words, you can make a fictional calculation if your order in council is flexible, thereby satisfying the Auditor General and in no way diminishing the department's primary responsibility, which is to provide the service which the statute lays down.

Mr. HENDERSON: These are really honorariums negotiated by properly qualified people in the department, and I cannot see why the order in council could not give recognition to that, specifying that it requires half day attendance or its equivalent as the department may decide.

Mr. WINCH: Mr. Chairman, if I understand it correctly I cannot see that there is any major or fundamental difference of opinion between the Auditor General and the department. There is only one point, that is that the Auditor General, considering his responsibilities, feels that the present wording of the order in council does not give authority for what is being done. All he is asking is not a change in the policy of the department but that the order in council be brought into line with the service that is being given. Surely, then, if there is broad acceptance or complete agreement on the service between the Auditor General and the minister of the department there can be established whatever it is felt is required from an auditor's point of view or from a legal point of view to bring the order in council in line with the service.

Mr. ROCK: It could be done on the recommendation of the committee.

Mr. HENDERSON: I think that can be done, Mr. Winch, with the recommendation of the committee. There should also be a further discussion with the treasury board to see if it could not be remedied.

As far as the billings and question of public funds are concerned, this order in council gives authority to the part time doctor to bill persons eligible for treatment under certain of the sections as we have been discussing here. It might therefore be argued that because the order in council has recognized it, this in effect removes these particular funds from the sphere of public funds; that is to say, that the governor in council gave recognition to the fact that they would be collecting money from the paying patients and that was taken into account in computing the negotiated fee.

I am not yet prepared to express an opinion on the legal aspect of that, but it was the direction in which I understood they were moving when they put this order in council forward last June.

The CHAIRMAN: Mr. Danforth.

Mr. DANFORTH: I have a question to put to Mr. Crawford.

The Auditor General, Mr. Henderson, used the term "honorarium", as did you in your remarks, Dr. Crawford. As I understand it, the services are not on a time clock basis; you are employing a doctor to assume a certain responsibility for which he is paid, and the number of hours is up to him as long as he fulfils the responsibility for which he is being paid.

Could you, sir, elaborate on why this term "honorarium" should not be used? Would it interfere with your flexibility if this term were used?

Mr. CRAWFORD: Yes, I think it would to some extent. If I used the term "honorarium", I should say that this honorarium is to cover a period of time—a month, a half year, a week, or something like that. I do change the rate of half days payable to an individual doctor at monthly intervals. If I could whittle this honorarium down to a month, probably I would have no administrative difficulty. If I make the operative period longer than a month, then I lose administrative flexibility.

Mr. CROUSE: I have listened very carefully to the remarks of Dr. Crawford, and it seems to me that this whole matter is one of splitting hairs. There are people today who buy a licence to drive their automobiles on a highway, and that licence permits them to use the car twelve months of the year. Through disability or some other trouble, they may find the car stands in the garage for some eight months, but they are permitted to use the highway. My car is also licenced for twelve months of the year, but much of the time

it stands in the parking lot of the House of Commons. However, I want to know that I have the service and the car available.

It seems to me that the evidence Dr. Crawford has given to us here has shown us that he requires the services of the doctors, and he wants to know that they are available. I think the present system should be allowed to remain.

Mr. RYAN: I would like to ask Dr. Crawford to give us an illustration of what happens to a specialist who receives an honorarium of the top amount, say \$11,000 a year, on the basis of two half days a week.

Mr. CRAWFORD: More than that.

Mr. RYAN: I am speaking of a specialist who, in addition, is allowed to bill the patients in the hospital on a private basis.

I would like to have some idea what income some of these specialists are obtaining from the privilege of their position.

Mr. CRAWFORD: Frankly, sir, I do not think that is any of my business. I do not know the answer.

Let us take for example the case of a professor or assistant professor of medicine in one of the universities who has a consulting practice outside, and who is working for me in the hospital perhaps as the chief of my medical service, responsible for the operation of the entire medical service. I would pay that man \$11,500 for what he does for me; and I think I am being well served at that amount of money. What he gets from the university is not my concern. What he gets from the private practice is not my concern.

Mr. RYAN: Perhaps I am being a little unfair in my question. Let me put it this way: Have you seen any case where there has been an abuse by a specialist? Perhaps I should not use the term abuse. I am speaking of a case in which a specialist spends his full time at the hospital doing two and a half days in connection with public patients and dealing with the private patients sector for the remainder of his time.

Mr. CRAWFORD: No, this has never happened. First of all, the maximum for which I would take on a man on this half day basis would be 20 half days a month. This would mean that I am paying him to be there every day. Such a man would in fact be charged with the administrative responsibility of his section of the hospital as well as the care of patients and supervision of the work of other doctors working with him. This is what would be required to bring him up to the maximum of \$11,500. If he is there for more than that length of time he may be getting a few dollars from private patients in that hospital. He is probably, however, working in some other hospital as well, and he is getting a lot of money from that.

Mr. RYAN: Would you yourself recommend that there should be an amendment put through to this order in council so that the proceeds from the service of specialists treating patients who are in the hospital on a paying basis would be syndicated?

Mr. CRAWFORD: May I read to you something I wrote? You will understand that when the Auditor General makes his observations and forms his report those observations come to the departments, and everybody takes a look at what the Auditor General has said. In our department, at any rate, each of us individually makes a comment on the Auditor General's observations. This is what I wrote with respect to paragraph 91 of the 1962-63 report.

I said:

The Auditor General draws attention to the administrative difficulties arising from the payment of medical fees of patients being treated under certain sections of the veterans' treatment regulations. These diffi-

culties have long been recognized by the department. No entirely satisfactory method for resolving them has been found.

In view of the general satisfaction which has resulted from methods adopted in the past in the employment of medical officers in departmental hospitals, the department feels they should continue these methods and accept the administrative difficulties that may be associated with them.

If I may paraphrase that, I have been concerned about this problem since I joined the department eight years ago. I have given a great deal of thought to the best ways of meeting the objections which have been raised, not only by the Auditor General, but by myself. I have been unable to find a completely satisfactory method, and if the Auditor General and the deputy minister in their wisdom can find a better way, God bless them; but in eight years of hard work I have not been able to do it and I would like to leave the thing alone.

Mr. RYAN: In other words, you feel that if you deprive some of these able specialists of the right to keep the funds they earn from these private patients they will no longer work with the department. Is this the case?

Mr. CRAWFORD: No. I think if we did not have these elective patients in our hospitals it would not make any difference. These doctors are not primarily concerned with the number of dollars they are getting for the treatment. You will appreciate the fact that the medical profession is extremely tender at the moment, and has been for some time, about anything which looks like state medicine. I am dependant on their good will and must co-operate as much as I can with them and they with me. They say that so long as we are going to have these elective patients in hospital they must be treated as if they were in community hospitals. If we did not have them, I do not think it would make any difference, but so long as we have them, we must treat them in this way.

Mr. RYAN: There are cases where they object to syndicated funds.

Mr. CRAWFORD: What they do with the money they get is of no concern to me. They can send the bills. If they want to pool it and split it up among themselves, they may. On the other hand, if a doctor wishes to send an individual bill, that is the doctor's concern and not mine.

Mr. ROCK: The elective patients are what we are concerned with right now, the amount of fees they are paying to the doctor.

Mr. CRAWFORD: We are not concerned at all with the amount of the fees, I submit.

Mr. ROCK: I mean, the discussion with which we are concerned here.

Mr. CRAWFORD: Yes.

Mr. ROCK: And not what you are concerned with. Do these doctors work also in a clinic where there are other patients who are not elective patients in the hospital and who come in for treatment?

Mr. CRAWFORD: You mean in the out patient clinic of the hospital?

Mr. ROCK: Yes.

Mr. CRAWFORD: No. We do not do any of this so-called section 23 work on an outpatient basis; this is just internal in the hospital.

Mr. HARKNESS: This difficulty which is dealt with in this particular section arises as a result of doing away with the flat fee basis for elective patients; in other words, when there was a flat fee basis this question did not arise because under those circumstances the doctors who treated these elective patients were being paid just the same as they were being paid for disability pensioners, and so on. What was wrong with the flat fee basis? Why would not the restoration of this get away from these difficulties?

Mr. CRAWFORD: First of all, remember we are paying a very minimal amount to the doctors who work for us; it averages out something in the order of \$2 a day. This, then, is putting a value of \$2 a day on the services of the surgeon who is taking out the brain tumour, is doing the gall bladder operation, and so on. The medical profession—and in this case I think quite rightly—says this is not acceptable; we will not have our services valued with regard to private patients at that rate. Now, there are two options; we can change our whole system of remuneration of medical officers and go on to a fee for service basis where I will pay \$1,000 to the neurosurgeon who takes out the brain tumour for the chap for whom I am responsible; or we can say, all right, work for your \$2 a day per patient for the people who are under my responsibility and the others are private patients, do what you will with them.

Mr. HARKNESS: In other words, the reason you moved away from a flat fee basis was that the medical profession objected to it?

Mr. CRAWFORD: Primarily, or at least that was a very important factor.

The CHAIRMAN: Are there any more questions on this item, gentlemen? If not, I am sure the committee would want me to extend our gratitude to Mr. Pelletier and Dr. Crawford for the careful and detailed explanations and the assistance they have given to us. We appreciate your coming here, Mr. Pelletier and Dr. Crawford.

Now, gentlemen, it is half past 11 and I do not think there is any point in commencing another item at this time. We will adjourn to reconvene on Thursday at which time Dr. Cameron, the deputy minister of national health and welfare, will be here. In addition, there will be one or two other items and these will appear on the notice which is sent to you.

APPENDIX 1

DEPARTMENT OF TRANSPORT

OTTAWA, August 5, 1964

Mr. G. W. Baldwin,
Chairman,
The Standing Committee on Public Accounts,
House of Commons,
Ottawa, Canada.

Dear Mr. Baldwin:

When the Departmental Officials appeared before the Standing Committee on July 28th, the question was asked as to how the figure of \$350,000. was determined for inserting as a condition in the lease with Air Food Caterers.

An examination of Departmental files does not indicate clearly and completely why the figure of \$350,000. was inserted as a condition of the lease. It would, however, appear that this figure was an oral estimate made by the bidder to the Department respecting the cost of suitably equipping and furnishing the lounge area and Departmental Officials referred to this cost estimate in later discussions with Treasury Board Officials. Subsequently, the Treasury Board Minute approving the award of the concession to Air Food Caterers contained the proviso that:

"The concessionaire shall spend a minimum of \$350,000. as the initial cost of furnishing, equipping and decorating the various concessions. In this regard and as a condition for entry into the lease, detailed plans and specifications shall be prepared for the program, the implementation of which shall be conditions precedent to the balance of the lease arrangement."

Yours very truly,

G. A. Scott,
*Assistant Deputy Minister,
Economic Policy and Research.*

APPENDIX 2

DEPUTY MINISTER OF PUBLIC WORKS

OTTAWA 8, July 31, 1964.

Mr. G. W. Baldwin, M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa 4.

Dear Mr. Baldwin:

This letter refers to the following two items relating to the Department of Public Works which remained outstanding at the meetings of the Public Accounts Committee on Thursday, July 23, 1964.

A: 1963 Report, paragraph 80—Construction of a Public Building, North Bay, Ontario

Mr. A. D. Hales, M.P., asked for the number of tenders received and whether the lowest was recommended.

Answer:— Fourteen tenders were received in response to public advertisement, ranging in value from \$1,341,698 to \$1,483,176. The contract was awarded to the lowest tenderer (Bennett & Pratt Limited, Weston, Ontario).

B: 1962 Report, paragraph 115: 1963 Report, paragraph 98—Non-productive payments Generally

In order to place the reported payments in the proper perspective, the Committee requested that a statement be provided showing, for the two years under review, the total number of contracts completed, with the total claims received indicating those that were rejected.

The preparation of this statement involves a considerable amount of research into departmental records. This is now being carried out. The requested statement will be provided as early as possible and, in any event, no later than Friday, August 7, 1964.

I trust that will be satisfactory.

Yours sincerely,
Lucien Lalonde.

APPENDIX 3

DEPUTY MINISTER OF PUBLIC WORKS

OTTAWA 8, August 20, 1964.

Mr. G. W. Baldwin, M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa 4.

Dear Mr. Baldwin:

At the meeting of the Standing Committee on Public Accounts held on Thursday, July 23, 1964 the department undertook to provide additional information in respect of the total number of contracts completed and the claims received on these contracts for the two years under review.

The attached appendix sets out the requested information in respect of both construction contracts and consultants' agreements. In order to eliminate a large volume of small contracts of minor value, the report is confined to construction contracts in excess of \$15,000 and consultants' agreements in excess of \$5,000.

I trust that this information will satisfy the requirements of the Committee and will assist in placing the reported "non-productive" payments in the proper perspective.

Yours sincerely,

Lucien Lalonde.

Att.

Appended to letter of August 20, 1964, to Chairman, Public Accounts Committee, from Deputy Minister of Department of Public Works.

Department of Public Works

Summary of Contracts and Claims Received Thereon,
1961-62 and 1962-63

A: *Contracts and Claims Summary*

Fiscal Year	Number and Value of Contracts	Number and Value of Claims Rec'd.	Number and Value of Claims Paid	Value of Non-Productive Element of Claims Paid
1961-62	525—\$ 99,737,400	38—\$2,996,300	30—\$ 771,300	\$333,600
1962-63	548—\$107,208,600	55—\$2,846,700	47—\$1,146,700	\$464,800

B: *Disposition of Claims*

Fiscal Year	Number and Value Paid in Full	Number and Value Paid in Reduced Amt.	Number and Value Rejected in Full
1961-62	8—\$ 98,500	22—\$672,800	8—\$109,000
1962-63	17—\$164,000	30—\$982,700	8—\$125,000

Notes:

1. Section A

- (a) The "non-productive" element of claims paid includes all claims reported by the Auditor General with the exception of the payment in each year in respect of unused office space in London, England, which did not involve a contract claim.
- (b) The difference in value between claims paid and "non-productive" elements of claims paid represents payments for extra work and other contractual obligations.

2. Section B

The details of claims rejected in full does not include claims rejected at District level and not pursued by the contractor to Headquarters level.

APPENDIX 4

DEPARTMENT OF NATIONAL DEFENCE

OTTAWA.

July 30, 1964

Mr. G. W. Baldwin
 Chairman
 Public Accounts Committee
 House of Commons
 Ottawa, Ontario

Dear Sir:

During the examination of the defence items in the Public Accounts Committee, Mr. Choquette asked for information concerning the distribution of the French language volumes of the Official Histories of the First and Second World Wars. I am enclosing a statement on each of these volumes.

Yours very truly,

E. B. Armstrong,
Deputy Minister.

OFFICIAL HISTORY FIRST WORLD WAR (FRENCH)

One Volume (French)

Total printed	2,200
Total Cost	\$25,602.00
DND share	\$20,660.00 for 200 copies
Current selling price	\$6.50

Q.P. Distribution

Free	162*
Sales	174
Stock	1,664

D. History Distribution

Government Departments	10
D. Public Relations	30
Netherlands Embassy	1
Foreign His. Sections France and Belgium	4
Authors complimentary copies	5
Stock	50

*includes distribution to university and public libraries.

OFFICIAL HISTORY SECOND WORLD WAR (FRENCH)

Vol. 1 French

Total printed	2,905
Total cost	\$22,794.00
DND share	\$18,401.00 for 405 copies
Current Selling Price	\$4.50

Q.P. Distribution

Free	121*
Sales	2,379
Stock	Nil

D. History Distribution (Free)

Through Q.P. for promotional purposes to newspapers	55	
Other Government Depts.	} 33	
Armed Forces		
Minister of National Defence		
Dept. Library		
External Affairs Library		
Governor General		
Authors complimentary copies	5	
Stock	7	

*includes distribution to university and public libraries.

OFFICIAL HISTORY SECOND WORLD WAR (FRENCH)

Vol. 2 French

Total printed	3,000
Total cost	\$27,436.00
DND share	\$21,593.00 for 500 copies
Current Selling Price	\$4.50

Q.P. Distribution

Free	150*
Sales	860
Stock	1,490

D. History Distribution—Free

Government Depts.	35
Q.P. for promotional purposes to newspapers	55
D. of Public Relations	25
Authors complimentary copies	9
Stock	26

*includes distribution to university and public libraries.

OFFICIAL HISTORY SECOND WORLD WAR (FRENCH)

Vol. 3 French

Total printed	2,700
Total cost	\$13,500.00
DND share	\$8,500 for 200 copies
Current Selling Price	\$5.25

Q.P. Distribution

Free	165*
Sales	465
Stock	1,870

D. History Distribution

D. Public Relations	30
Other Govt. Depts.	34
Foreign Historical Sections France & Belgium	4
Q.P. for promotional purposes through newspapers	50
Stock	59

*includes distribution to university and public libraries.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 21

Public Accounts, Volumes I, II and III (1962 and 1963)

Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, OCTOBER 22, 1964

WITNESSES:

Dr. G. D. W. Cameron, Deputy Minister of National Health, Department of National Health and Welfare; Mr. A. M. Henderson, Auditor General of Canada, and Messrs. J. R. Douglas and D. A. Smith, of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
Crouse,
Danforth,
Drouin,
Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Gray,
Grégoire,
Hales,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,

Pilon,
Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, October 22, 1964.

(35)

The Standing Committee on Public Accounts met this day at 9.45 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Forbes, Francis, Frenette, Hales, Harkness, McLean (*Charlotte*), McMillan, O'Keefe, Pilon, Regan, Rock, Southam, Stefanson, Stenson, Tardif and Tucker.—(18).

In attendance: Dr. G. D. W. Cameron, Deputy Minister of National Health, Department of National Health and Welfare; Mr. A. M. Henderson, Auditor General of Canada, and Messrs. J. R. Douglas and D. A. Smith of the Auditor General's office.

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

The Chairman introduced Dr. Cameron and then called Mr. Henderson.

On paragraphs 85 of the 1962 Report and 72 of the 1963 Report, *Hospital construction grants*, Mr. Henderson reviewed this subject and was examined thereon, assisted by Mr. Douglas.

Dr. Cameron commented briefly and was examined thereon, and supplied additional information.

On paragraph 73 of the 1963 Report, *Indian hospitals and hospital insurance*, Messrs. Henderson and Cameron commented briefly and were examined thereon.

On paragraph 74 of the 1963 Report, *Improper authorization of use of a Government-owned automobile*, Messrs. Henderson and Cameron were examined thereon. Mr. Henderson tabled a letter in this connection which he received from Dr. Cameron, dated June 15, 1964, which was ordered printed as an Appendix to the record of this day. (*See Appendix*).

The questioning of Dr. Cameron being concluded, the Chairman thanked him and he was permitted to retire.

Paragraph 49 of the 1963 Report, *General Election Expenditures*, was allowed to stand in order to hear Mr. Castonguay later.

Mr. Henderson reviewed paragraphs 51, 62, 63, 71, 78, 97 and 98 and was questioned thereon, assisted by Messrs. Douglas and Smith.

The questioning of Mr. Henderson still continuing, at 11.15 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, October 27, 1964.

M. Slack,

Clerk of the Committee.

EVIDENCE

THURSDAY, October 22, 1964.

The CHAIRMAN: Gentlemen, I see we have a quorum. The meeting will come to order.

Today we have with us Dr. Cameron who needs no introduction at all to any of you; he is here as deputy minister of national health of the Department of National Health and Welfare and has been kind enough to leave another meeting which has been going on for some time so that he could appear before us at our request.

We will deal particularly with paragraphs 72, 73 and 74 which appear on pages 45 and 46 of the 1963 report. Pursuant to our usual practice, I will ask Mr. Henderson to comment first of all on paragraph 72, after which I will call on Dr. Cameron.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman. Paragraph 72 of my 1963 report dealing with hospital construction grants deals with a subject mentioned in the previous year's report, 1962, under paragraph 85 which likewise was left for this discussion.

What we have suggested in these two comments is that because of the nature of the construction grant program—the fact that long term planning is involved—it should be on a period of years basis rather than dependant on annual appropriations. I then point out the difficulties encountered in trying to finance the program from year to year. For example, I note that although an appropriation is intended to provide for commitments coming in course of payment during the year, 1962-63 was the third consecutive year in which insufficient funds were available to meet the federal government's obligations under the program and as a result substantial amounts of unpaid claims had to be carried forward.

It is noted that the Glassco Commission in volume 3 of their report, page 209, recommended that:

The present reporting and accounting requirements for health grants be reviewed and simplified, and consideration be given to placing health grant programs, of which the hospital construction grant was one, on a period-of-years basis.

Perhaps Mr. Cameron might care to comment upon this procedure, Mr. Chairman.

The CHAIRMAN: Yes. Dr. Cameron, any statement you have to make would be appreciated by the committee.

Dr. G. D. CAMERON (*Deputy Minister, Department of National Health and Welfare*): I should preface any comment of mine by saying that the situation has gradually developed since the inception of the grant program. I should also point out that the method we are using to finance our contributions to hospital construction is as we have been directed to do it by our ministers. In other words, it has been government policy that we have been following. The fact that we are supporting construction of hospitals means that we are obliged to make commitments well in advance, months, sometimes years in advance of the actual completion of construction. The building of a large hospital may run over two years and possibly into three years. The commitment of the

government has been for five year periods. The current commitment under which we are operating is a promise of \$20 million a year approximately for five years ending in 1968.

In making commitments to provinces, approving the project of a province, our purpose is to ensure that the funds would be made available, if annual appropriations are voted, and that there will be sufficient coming to that province to meet the commitments which we make in any current year, as pointed out, but in a five year period. Now, this is the way we have done it and I really cannot say much more than that.

The CHAIRMAN: Thank you, Dr. Cameron. Are there any questions on this subject?

Mr. McMILLAN: You say you receive \$20 million in five years, according to the rate you are going now?

Mr. CAMERON: No. I did not say that.

Mr. McMILLAN: Is there any allocation of money for these grants in the provinces?

Mr. CAMERON: Yes.

Mr. McMILLAN: I mean each year, going back to the \$100 million in excess?

Mr. CAMERON: As to the current year.

The CHAIRMAN: Are there any other questions? If not, might I ask you this: As I understand it, you promise \$20 million a year; this is promised by the federal government to an aggregation of all the provinces, and it would be a total of \$100 million in five years.

Mr. CAMERON: Yes.

The CHAIRMAN: I suppose what happens is that the provinces involve themselves in hospital construction, and if they would limit it to their proportionate share of the total of \$100 million in any one year, it would be all right. But sometimes they go a little faster than would be expected, and then you become faced with this *fait accompli*, a request for funds and grants over and above what your undertaking has been. Is this about the size of it?

Mr. CAMERON: I think that the different provinces appear to handle it differently. In some provinces they simply go ahead with their program, and they make payments to actual constructors of hospitals, to owners of hospitals, and collect from us as they go. In some cases where they cannot collect from us what appears to have been promised, then they protest. I do not know if I have answered your question.

The CHAIRMAN: Yes, I think I understand your point.

Mr. FRANCIS: Might I ask Dr. Cameron if there is any instance of a submission by a province, which appeared otherwise to be in order according to the rules, being turned down on the grounds of lack of federal funds?

Mr. CAMERON: Yes. In respect of two provinces I think we are just about at the end of our run at the present time.

Mr. FRANCIS: Perhaps I could put the question another way. Is it not basically a matter of timing? Say, if a province should be over in its quota or allotment in any particular year could not the same project be resubmitted at the beginning of the next fiscal year?

Mr. CAMERON: Yes.

Mr. FRANCIS: I can appreciate the problem of timing, but have there been any instances of such projects failing to receive federal grants after being constructed?

Mr. CAMERON: No.

Mr. FRANCIS: Of course, I am referring to such projects which have fallen within the rules.

Mr. CAMERON: Yes, I understand, and the answer is no.

Mr. McMILLAN: I understand that some hospitals use an amount less than their allocations.

Mr. CAMERON: Some provinces.

Mr. McMILLAN: Yes. And, you do not exceed \$20 million in any year.

Mr. CAMERON: I hope Mr. Henderson will come to my rescue in this regard. I am sure we are staying within the amount promised, having regard for the five year block.

Mr. FRANCIS: Of course, there may be a few delays.

Mr. CAMERON: Oh, indeed. There are days caused by resubmissions, putting it off and so on, but I think we are within the amount.

Mr. SOUTHAM: May I ask Dr. Cameron in respect of this \$20 million a year or \$100 million for five years how the department attempts to allocate this money between the provinces? Is it on a per capita basis or is some other formula used?

Mr. CAMERON: There is a basic amount, although I do not recall exactly what it is, and all our health grants are on this basis. As I say, there is a basic amount to all provinces and then the remainder is allocated on a per capita basis. This is done to ensure that a reasonable sum is available to the very small provinces.

Mr. CARDIFF: Is there any excuse for over-expansion in respect of any one province building more than it is supposed to under the allotment?

Mr. CAMERON: Well, Mr. Chairman, these allocations of funds are not done on the basis of what we regard as an adequate number of beds in a province. This is one of the criticisms of this method of supporting hospital construction. The policy has been to offer the same amount on a per capita basis, roughly speaking, to each province and not taking into account the number of beds per thousand already existing in that province.

Mr. CARDIFF: It states in paragraph 72 that one province was in excess \$2.1 million, whereas the other seven provinces were behind \$1.3 million. In the one case there was over expansion and in the others the reverse.

Mr. CAMERON: Of course, there has been a very rapid development in Quebec.

Mr. FRANCIS: It is catching up for a lack of development in previous years.

Mr. CAMERON: Yes. They have their proportion, the same as the rest.

Mr. HENDERSON: Could I ask Mr. Douglas to add something to this. He is responsible for this phase of the work and is very familiar with it.

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): There is one point that should be clarified, namely the distinction between \$2.1 million and \$1.3 million, which is mentioned in the note.

The \$1.3 million of unpaid claims arose because the appropriation for the year was not sufficient to meet all the matured commitments in respect of projects completed in that year. In other words, you might say, there is a technical overspending of the vote for that year, \$1.3 million in accounts payable, you might say, had to be carried into the next year before being paid.

In the case of the \$2.1 million, this is a matter which under the present practice or procedure the federal government has not had control over, and it simply means that one province goes ahead with its construction program

knowing full well that the federal contributions cannot be made in the present year and that they must wait until subsequent years for payment. That is principally the distinction between these two situations.

Mr. HARKNESS: As I understand it, the Auditor General is suggesting that there should be an over-all limit for the five year period on the amount of money available under this program. Now, Dr. Cameron has said that there is an over-all limit, which would be \$100 million for the five years. But, that is not a statutory limit or anything of that nature, I take it; it is a sort of understanding. Am I correct in that respect?

Mr. CAMERON: It is a declaration of policy by the government; it is not statutory.

Mr. HARKNESS: Well, your point, Mr. Henderson, is that it should be statutory. Am I correct in that assumption?

Mr. HENDERSON: Yes, we think it would make for more effective control of spending, if the whole thing is planned on a five year basis, were parliament to acknowledge the total commitment even if it is only going to vote \$20 million a year annually for each of the five years.

Mr. HENDERSON: In other words, it is pointing out a matter in respect of the form of the estimates rather than anything else.

Mr. HENDERSON: Yes. I would like to suggest, if the proposition commends itself to the committee, that this is something the treasury board could take into consideration in respect of this whole area of program budgeting. You might recall, when we discussed the form of the estimates, one of the points I made was there should be a declaration and notification of all commitments over the next five years or so because in many cases today we have a five year program. A clearcut statement of what these commitments are in the estimates would add to your sum total of information; in this way you would be able to see what is the sum total of the commitments.

If you feel, in the light of the explanation Dr. Cameron has given, that this is reasonable and that parliament would thus have a more effective control, then perhaps it could be grouped in with the program of budgeting approach which treasury now has under way. We could tie both together. As you know, Treasury Board is examining the four departments with a view to introducing this type of program of program or project budgeting as distinct from budgeting or estimating by objectives. This is one of the Glassco financial management recommendations. It is part of that. I think if the committee believes there is merit along these lines this approach might be considered.

Mr. STENSON: Mr. Chairman, I am new on this committee and this question may have been asked. How is the allotment set up for each province?

Mr. CAMERON: There is a basic allotment to all provinces and then it is per capita. This applies to all our health grants.

Mr. STENSON: Would a poor province receive more on the basic allowance than would Ontario?

Mr. CAMERON: Only if it is a small province. What I am getting at is that it is in proportion. All provinces receive a basic grant. A small province does better under that than a big province; but from there on it is on a per capita basis.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will pass on to paragraph 73.

73. *Indian hospitals and hospital insurance.* Section 5 of the Hospital Insurance and Diagnostic Services Act, 1957, c. 28, requires every province to agree to make insured services available to all residents of the province upon uniform terms and conditions. When hospital insurance

was discussed by the 1956-57 special committee on estimates, and later when the relative bill was debated in parliament, it was made clear this would oblige the provinces to provide insured services for Indian as well as other residents.

Indian and northern health services of the Department of National Health and Welfare has been providing these services to Indians and recently the volume of general treatment has increased as hospital facilities previously used for tuberculous Indians became available for general treatment.

The hospital insurance agreement with the province of British Columbia included the three Indian hospitals in the province, in recognition of their role in providing general hospital care to Indians. The province, however, has insisted that the agreement is subject to an earlier understanding that the province will only pay for care in Indian hospitals if no general public hospital accommodation is available. Thus, the province has refused to pay Miller bay Indian hospital for insured services to insured residents when accounts are not accompanied by a certificate from the nearby Prince Rupert General hospital that they had no accommodation available. While the province may wish to promote the integration of Indians and the general population, financial considerations appear to be paramount. Under the agreement the province pays practically the full operating costs of the Prince Rupert General hospital whether its beds are used or not, but for hospitalization in the Indian hospital the province pays only for the beds used.

In the calendar year 1962 the Prince Rupert General hospital's average occupancy was 95 per cent of its rated capacity of 88 beds, while the Miller bay Indian hospital's average occupancy was only 60 per cent of its rated capacity of 70 beds assigned to general care. The occupancy rates appear to reflect the province's policy of using this Indian hospital to provide stand-by facilities for the general hospital.

The 1962-63 public accounts show the operating costs of the Miller bay Indian hospital at \$73,000 and about half of this amount could be regarded as related to general care. Revenue received from the province's hospital insurance plan, as an offset to the cost related to general care, amounted to only \$14,000 or about 4 per cent of the federal expenditure. The failure to recover a larger share of costs at the Miller bay Indian hospital is explained by the fact that (a) the province will not pay for insured patients at the Indian hospital unless accommodation is not available in the general hospital, (b) per diem rates set by the province are below actual cost (and also below the corresponding rates in the Prince Rupert General hospital), and (c) the province deems some of the care given insured patients unnecessary, and will not pay for it. Thus, notwithstanding the fact that general care includes uninsured chronic and custodial care, it seems evident that Canada is bearing costs it was intended that the provinces assume under the Hospital Insurance and Diagnostic Services Act.

Mr. HENDERSON: Paragraph 73 deals with Indian hospitals and hospital insurance. As you will have noted here, it is concerned with what to us appeared to be the inadequate recovery of costs from the province of British Columbia under the hospital insurance agreement for insured services to Indian patients in the Miller bay Indian hospital. There are three reasons for this. First of all, the refusal of the province to accept accounts for the treatment of Indians unless accompanied by certificates from the Prince Rupert General hospital that accommodation was not available there.

The department considers this restriction to be contrary to the agreement, but the province insists that the agreement is subject to an earlier understanding to the effect that the province would pay only for care in Indian hospitals if no general public hospital accommodation were available. Secondly, the per diem rates set by the province for Miller bay are below those for hospitals other than federal hospitals in British Columbia that are comparable in respect of size, facilities, standards of service, and location, for example, the Prince Rupert General hospital. Finally, the province deems some of the care given insured patients unnecessary and will not pay for it.

I believe there have been developments subsequent to the appearance of this note, and perhaps Dr. Cameron might outline them to the committee.

The CHAIRMAN: Yes, Dr. Cameron, would you bring us up to date on this and give us your views?

Mr. CAMERON: Mr. Chairman, this has been a thorny business between the British Columbia Hospital Services Commission and the department for some years. Miller bay is not very far from Prince Rupert; it is a wartime hospital which we took over at the end of the war. We care for a variety of patients in this hospital. If I may deal with the last point made by the Auditor General first, that is that we keep people and do things in our hospitals which they do not contemplate in their hospital system; I can only say we do indeed. We have long term chronic cases; we have people who must be looked after simply because they are convalescent and there is no place else for them to go. In our arrangement with the hospital commissions in various provinces, we have made an allowance for this. We ask them to pay only in respect of active treatment such as they would pay for in their own hospitals.

As stated here, we do not accept that there was any undertaking that we would take only the overflow from the Prince Rupert General hospital. However, I am very glad to say at the present time that this is all past history. Last spring I met with the senior officials of the Hospital Services Commission in British Columbia at which time we made an arrangement that they would honour our accounts for so many hospital days per year at Miller bay. We have made our calculations and feel that this is a reasonable offer and we have accepted it. This is in respect of ongoing care of patients. Included in the agreement is an undertaking that the Hospital Services Commission would pay the outstanding accounts which have been accumulated and which we were pressing them to settle.

Another feature of this which has had a part in our thinking about it is the fact that we hope to close Miller bay hospital when it is practical and possible. We may not close it but perhaps change the nature of it. However, our general over-all policy is to discontinue these hospitals and use the normal community hospitals for our patients wherever that is practical. I anticipate that the application of that policy to this situation should come about before many years pass.

The CHAIRMAN: Thank you, doctor. Are there any questions on this paragraph?

Mr. HALES: I gather, Mr. Chairman, that it is pretty well solved to the satisfaction of both parties.

Mr. CAMERON: It certainly is solved to our satisfaction and that of the hospital commission of British Columbia.

Mr. HALES: Now that British Columbia has lots of money they will be able to pay up their back balance.

Mr. FRANCIS: I presume the Auditor General is aware of the new arrangements. Has he any further comment?

Mr. HENDERSON: No, we have not. We have not examined the detailed arrangements as yet; it is coming under audit review in the now current fiscal

year. However, it appears to me this may be a satisfactory answer to the problem and I am grateful to Dr. Cameron for the explanation.

The CHAIRMAN: We hope it will not show up in next year's report.

Mr. FRANCIS: Obviously it will not be as serious.

The CHAIRMAN: If there are no further questions, we will pass on to paragraph 74.

74. *Improper authorization of use of a government-owned automobile.* An employee of the Department of National Health and Welfare took a course at a university in a city some 150 miles away from his home. He was granted "educational leave" pursuant to section 73 of the civil service regulations and the treasury board authorized payment of a non-accountable allowance equal to full pay, tuition fees of \$250, and actual return transportation expenses (which the department had advised would be about \$20). In addition, a subsistence allowance at the rate of \$175 a month was approved, retroactively, after the course terminated.

While on this leave, the employee was permitted to continue to use the crown-owned automobile which had been provided for the performance of his duties. The automobile was used by him to travel between the university and his lodgings and to return home on week ends, with all running expenses being charged to the government, by means of credit cards, for a total of approximately 4,500 miles.

In view of the fact that (a) the employee was permitted to use the vehicle and (b) it was not made clear to him that he was on leave without pay rather than on official duty, the department has advised us that they will not take action to recover from the employee the costs resulting from the use of the vehicle (see also paragraph 93, "educational program costs"). As a result of our drawing this matter to the attention of the department, we understand that administrative changes are being made to prevent a recurrence.

Mr. HENDERSON: Mr. Chairman, members of the committee will recollect that they did take note of this comment at the time Dr. Davidson was the witness before the committee when we were discussing educational leave taken pursuant to section 73 of the civil service regulations. You will remember it was explained how officers of the public service are given educational leave, non-accountable allowances, tuition fees paid, and so on.

I believe your sixth report which was tabled the other day recorded your view that the total cost of this educational leave should be shown all in one place in the public accounts. If this is done in future issues of the public accounts the sum total of this type of expenditure will appear in one place rather than appearing individually under salaries, and the other expense categories.

With reference to paragraph 74, there is very little I can add by way of clarification to what has been said in the note itself. It is a question involving improper authorization of use of a government-owned car. Dr. Cameron was kind enough to write me a letter about this last spring explaining how this irregular use of the vehicle came about and the remedial action the department has taken. I do not know whether the members would wish to spend any time on this comment, Mr. Chairman. I have Dr. Cameron's letter here, and I would be happy to place it on the record, if you wish.

Mr. TARDIF: How does an employee get this kind of privileged treatment; who is he a friend of and what happens to the man who approves a thing like this? Does the man who approves a thing like this get fired, and if not, why not?

Mr. HENDERSON: I think that is a question that Dr. Cameron might be prepared to speak to.

Mr. TARDIF: I do not know whether or not I am right, but this looks like gross abuse on the part of the man responsible for granting this permission.

The CHAIRMAN: We might ask Dr. Cameron to speak to it, and then we might consider adding to the record by placing the letter on the record later.

Mr. CAMERON: Mr. Chairman, I think the correct interpretation of this mistake is failure in our administration; this should not have been done.

Mr. TARDIF: Was this fellow related to the chap who said yes?

Mr. CAMERON: No.

Mr. TARDIF: Was he married to his daughter?

Mr. CAMERON: No. I think, Mr. Chairman, this is a straight case of failure of our administration to catch this and deal with it properly.

Mr. TARDIF: But somebody must have given permission for this.

Mr. CAMERON: I think the fellow just went on using the car that was assigned to him.

Mr. TARDIF: The fellow who was his superior did not notice that?

Mr. CAMERON: That is right.

Mr. TARDIF: Then we have too many cars.

Mr. CAMERON: I sometimes think that myself, Mr. Tardif, but I do not know. In this kind of work involving inspectors, you either provide cars or you do not get these people out on the job.

Mr. TARDIF: What kind of a course was this fellow taking?

Mr. CAMERON: A course for sanitary inspectors. We are trying to train people to do more of the duties which have been done in the past by medical officers and nurses.

Mr. TARDIF: I know of the system, but surely this fellow received preferred treatment. I bet that if a check were made you would find he is related to somebody.

Mr. FRANCIS: How long was the course?

Mr. CAMERON: It was a short course, I think three months.

Mr. FRANCIS: I wonder whether Dr. Cameron would indicate whether or not there is any difficulty encountered in recruiting persons for employment as sanitary inspectors at this stage, especially in outlying areas?

Mr. CAMERON: This is a difficult area. You very seldom can recruit the type of person you want for this job. You have to recruit the best you can and do some training. These people do not exist already trained.

Mr. REGAN: Dr. Cameron, was this person taking the course as a result of a directive from the department?

Mr. CAMERON: It was as a result of an arrangement.

Mr. REGAN: In other words, the department wanted him to take the course?

Mr. CAMERON: Yes.

Mr. REGAN: It was not his idea?

Mr. CAMERON: It may have been his idea when he joined us, but that is not the point; the point is, the course was given not to please him but to accommodate us.

Mr. REGAN: What I am trying to determine is, what is the regulation that was abused? Was he entitled to be paid for transportation back and forth? Actually, the only transportation he charged was the gasoline used by the automobile. Is that accurate?

Mr. DOUGLAS: Yes, this is true; the operating costs of the automobile, the use of the automobile.

Mr. REGAN: Would not his transportation cost have been as expensive or more so had he not used the government vehicle and the government would have been responsible for those costs?

Mr. DOUGLAS: Of course, a lot of the travelling he did was unnecessary.

Mr. HENDERSON: He was attending a course at the University of Montreal and yet clocked up 4,500 miles.

Mr. REGAN: Where was he stationed?

Mr. HENDERSON: In Ottawa.

Mr. REGAN: How long was the course? Perhaps he commuted every day.

Mr. TARDIF: Is this the only case of this kind, or are there others who are doing this?

Mr. HENDERSON: Apparently the course was 11 weeks.

Mr. REGAN: He only made 300 miles a week, and that is only one return trip a week.

An hon. MEMBER: 400 miles.

Mr. CAMERON: It certainly is not our policy that people taking courses in this way travel around the countryside in marked government cars. I can assure you that everybody is looking for this now. We have made the mistake once.

Mr. TARDIF: I think what everybody should be looking for is the fellow who permitted this to happen.

Mr. HALES: Is this person who was given the training course employed now in the department?

Mr. CAMERON: Yes.

Mr. HALES: Who was responsible for approving these expenses; would it be the comptroller of your department?

Mr. CAMERON: Yes; the expense accounts would come in through the accounting system of the department, the office of the departmental secretary.

Mr. HALES: What disciplinary action was taken when you found this out?

Mr. CAMERON: Well, it was not directed to accounts; it was directed to the superior officers where the man was working.

Mr. HALES: Did the conscience of this chap who was given this time off to take this course not tell him he had no right to a government car; what explanation did he give for using a government car? Did he appear before you, Dr. Cameron?

Mr. CAMERON: No, he did not.

Mr. HALES: Whom did he appear before?

Mr. CAMERON: His own superior officers; but it was not felt by us that he was the one at fault; it was the administration, the people senior to him who allowed this thing to happen. We did not feel that this man himself was deliberately putting one over.

Mr. HALES: Have you spoken to his superior officers in this matter?

Mr. CAMERON: At a higher level, yes.

Mr. ROCK: Why do you have this sanitary course; in other words, what are the sanitary inspectors doing in your departments; where do they work when they do and why do you need these people in this federal department?

Mr. CAMERON: They have a variety of jobs that require basic training in sanitation. The course at the University of Montreal, at the University of

Toronto, and a correspondence course which has been organized by the Canadian Public Health Association are the best courses of instruction; they are basic courses in sanitation. We have persons working in our public health engineering division who are responsible, for example, for the purity and safety of water supplies on common carriers. They inspect sewers and water supply; they inspect food supply and food distribution. In our quarantine section, as I mentioned a while ago, we try to train sanitary inspectors and introduce them into the role of quarantine inspectors, that is to say, watching the arrival of ships, aircraft, and so on. I am sure there are other tasks that we have in the Indian health services as well.

Mr. TARDIF: I do not know if I understand this well, but I presume that while this fellow was out taking this special course, he was paid. Do you know what his rate of pay was?

Mr. CAMERON: No.

Mr. TARDIF: He would be making a least \$3,600 as a minimum.

Mr. CAMERON: I would think so.

Mr. TARDIF: He would probably be making \$4,200; and if my calculation is right, it cost close to \$2,135 to send him away for the three months course: and you paid him \$175 a month for living allowances, \$450 for travelling expenses, and \$250 for tuition. If he had gone according to the original agreement, and received \$20 a month for travelling expenses, it would have cost you \$60 a month, and \$450; and if he also had received his salary, it would total up to \$2,135 with all these expenses. While it may be necessary to train them—and I have no objection to it—might I ask if the department made an agreement with this man that he would work for the department for a certain length of time, or was he at liberty to leave the department after being trained and take employment somewhere else which would pay him more?

Mr. CAMERON: There is a moral obligation, but you cannot bind a person. I think that is the experience of many agencies which have done this kind of thing.

Mr. TARDIF: Mr. Francis and I have been in civic administration, and it may be that we are a little tougher than people in federal administration; but in addition to the moral obligation we also draw up a contract with them and make them responsible for the total cost if they do not serve a certain amount of time, and do not serve conscientiously. Most people who have good training are conscientious anyhow. But in spite of that, we draw up a contract, and we have no trouble at all. Previous to the adopting of this system we used to make an agreement which was verbal, on the man's honour, because he had a moral obligation. But 99 per cent of the time we did not succeed. The reason for the decimal there is that there is a fellow who still owes us for three months. Perhaps the committee would agree that we have to do something further than merely to rely upon a moral obligation; we have to draw up a contract and make them responsible for the past if they should quit before a certain length of time.

The CHAIRMAN: Perhaps some of the committee members might care to take up the subject of civic education with the city of Ottawa.

Mr. TARDIF: I am sure you do not want to confuse the issue. But these are some of the regulations we were able to bring about, sometimes against very strong opposition. But we did succeed.

Mr. ROCK: The city of Ottawa is not a good example.

The CHAIRMAN: Thank you very much.

Mr. McMILLAN: Who decides on the number of cars needed for the department? Here is a case where for a period of three months a car was not used. Is there a chance of there being too many cars?

Mr. CAMERON: There is always a chance of that. I think that transportation in a lot of our work is a difficult problem. You are torn two ways in this; your inspectors are no good sitting around in an office; and unless you facilitate and make it easier for them to get out, you are not going to get from your inspectors what you want from them. If you accept that, and I think it is true because it has been our experience, then it is probable that you actually do have more cars than are strictly necessary. I think you err on the side of having too many. I cannot go beyond that, because I cannot prove a word of it.

Mr. TARDIF: If that is the case, and you admit that we buy more cars than are necessary, who is responsible for giving the final O.K. on things like that?

Mr. CAMERON: I am, in advising the minister; and this comes under the agency of government which is responsible for supervising or keeping an eye on transportation in the government service.

Mr. TARDIF: There is nobody in your department who is responsible for deciding the matter. That type of decision should not all be left to you. There should be one person responsible for deciding whether or not the vehicles you buy are in too great number or are really necessary.

Mr. CAMERON: We do not have a transportation officer of the department. We do not operate it that way. What we do is to rely on the director of the particular service. Under him there is a supervisor of the particular branch of the service, and he would make out a case. We do not buy all the cars asked for by any means.

Mr. TARDIF: It is a good thing.

Mr. CAMERON: And even if we felt overly generous, as I have said, there are other agencies of government which watch over the total picture.

Mr. HARKNESS: Including the treasury board.

Mr. CAMERON: Yes, including the treasury board.

Mr. STENSON: Are these cars used by these people on week ends? Are they allowed to take them home, or do they stay at the place of business when they are finished with them at the end of the day?

Mr. CAMERON: It depends on the area and the job you are thinking of. If it is an official using a car here for departmental business in this city, it is not available to him. But whether he takes the car home or puts it in a public parking lot is often an individual arrangement, because the economics of the thing sometimes dictate that the cheapest thing to do is for him to take it home and park it there.

Mr. STENSON: These are all marked cars?

Mr. CAMERON: Yes, these are all marked cars. And when you come to the situation of the public health nurse in the field, she keeps her car with her all the time, because she may be out on duty on Sunday or any other day. So there is no simple rule.

The CHAIRMAN: Thank you.

Mr. HARKNESS: Have you any personnel who use their own cars on a mileage basis?

Mr. CAMERON: Indeed we have.

Mr. HARKNESS: So a considerable amount of your transportation is done on that basis?

Mr. CAMERON: Quite a bit of it is; but again, the determination of whether it is done on that basis or whether we provide the car is the combination of the wish of the individual plus the kind of mileage and the situation you are dealing with.

The CHAIRMAN: Are there any further questions?

Mr. STENSON: Do they not have to report at any time, or report weekly the number of miles that went on their cars?

Mr. CAMERON: There is a report kept on the use of the cars by the heads of the various branches in the department. We have a full report of them. It is the sort of thing you require before a replacement for example is authorized.

Mr. STENSON: I understand that some provincial government employees may take government cars home when they are charged a certain rate per month, and that this entitles them to use the car for their own personal use. I know that Manitoba has a system like that.

Mr. CAMERON: All our cars are prominently marked with the department insignia, and Canada, with the coat of arms and so on. They are government cars.

The CHAIRMAN: Are there any further questions? If not, we are happy to excuse Dr. Cameron. We are very happy to have had him here today. The deputy minister is absent from a meeting on mental health and retardation. This is not a clinical study. He is here legitimately. Thank you very much, Dr. Cameron, we appreciate your being here today.

Now gentlemen, we have some time ahead of us, and there are a number of smaller items which Mr. Henderson might deal with at this time, and which do not require the presence of other witnesses. I am thinking of item No. 49. But before that, is it agreed that the letter from Dr. Cameron to Mr. Henderson, the Auditor General should be filed and printed as an appendix to today's proceedings?

Agreed.

Now turn to paragraph No. 49. We hope that Mr. Castonguay will be with us later.

Mr. HENDERSON: I might explain to the committee that thus far in the deliberations of the committee this year you have tackled up to paragraph No. 49 in the 1963 report, and you have also tackled quite a number of items subsequent to that. So we have marked down this, beginning at paragraph No. 49 with which you have not yet dealt, and this in fact represents the workload from here on to the completion of the work of the committee.

The first of these is paragraph 49 in the 1963 report. It deals with general election expenses wherein, running through page 24, excess expenditures of one kind or another were made. I believe that you have under consideration inviting Mr. Castonguay to appear before you as a witness to explain these over-expenditures. Therefore, is it your wish that we skip this for the moment, if that is going to be done?

The CHAIRMAN: We have not made a firm date as yet, bearing in mind the redistribution bill. But we are hoping to be able to fix a date shortly. I think we will have him here to deal with this particular paragraph. Shall we stand it at this time?

Agreed.

Mr. HENDERSON: The next one which comes forward from paragraph 49 is paragraph 51:

51. *Reporting for counterpart funds by recipient countries.* In previous reports references were made to amounts that had been spent out

of funds appropriated by parliament for the purchase of commodities supplied by Canada, in accordance with agreements with the recipient countries requiring that the commodities be sold or otherwise distributed and that "counterpart funds" be set aside by them for subsequent use in connection with agreed economic development projects. All of the agreements further require that the recipient countries from time to time report the position of their counterpart funds accounts to the government of Canada and, in addition, certain of the agreements require that these reports be certified by the auditors general of the recipient countries.

As of March 31, 1963 a total of \$197,752,000 had been expended on commodities calling for the establishment of counterpart funds, including \$17,576,000 expended during the year under review. With respect to those agreements requiring that the auditors general of the recipient countries certify the position of the counterpart funds accounts, a total of \$193,893,000 had been expended by the government of Canada and the situation as regards certification was as follows:

Certified by auditors general of recipient countries	\$ 154,159,000
Reported but not certified	19,047,000
Unreported—previous years' expenditures ..	3,261,000
Unreported—1962-63 expenditures	17,426,000
	<hr/>
	\$ 193,893,000

With respect to those agreements which do not call for certificates of the auditors general of the recipient countries, a total of \$3,859,000 had been expended by the government of Canada and the situation as regards reporting was as follows:

Reported by recipient countries	\$ 3,249,000
Unreported—previous years' expenditures .	460,000
Unreported—1962-63 expenditures	150,000
	<hr/>
	\$ 3,859,000

Another requirement of all the agreements with the recipient countries is that expenditures out of the counterpart funds on agreed economic development projects be reported by the recipient countries and certified by their auditors general. At the time of our examination in October 1963 this information was not completely available and the external aid office was to determine the extent to which these certificates have been received.

The committee recommended in 1961 that efforts be made by the director general, External Aid, to obtain from the various recipient countries, on a reasonably current basis, the audit certificates called for by the agreements entered into by Canada with the recipients and requested the Auditor General to report on the results in due course.

This was the situation the committee had before it on November 22 last year when the director general of external aid came before the Committee to discuss the matter (see pages 141-147 of the evidence).

Mr. Moran explained to the committee at that time how some of the under-developed countries had difficulty in keeping track of requirements of this plan. He said that his office had itself not had much difficulty in reconciling

its figures with those reported by the recipient departments of overseas countries receiving material aid and that the situation was much improved at March 31, 1963 when auditors' certificates had been received for \$154,159,000 out of a total of \$197,752,000; in other words something like 80 per cent of the funds reported. These figures are shown in paragraph 51 on page 25 of my 1963 report.

If you add them all together you will have a total of \$197,000,000 of aid, and we have received audit certificates on only 80 per cent, namely, \$154,000,000. The situation at March 31, 1964 showed something better than this 80 per cent level. In fact, I could report that it is closer to 90 per cent at that date, and this we regard as a fairly favourable achievement. But unless you care to have me give the precise figures, I will be happy to put this statement which I have into the testimony. It is prepared in precisely the same manner as it appears on page 25 in front of you, that is to say, one year later.

The CHAIRMAN: This would bring it up to date.

Mr. HENDERSON: Yes, this would bring it up to date. So might I suggest, without further ado, that this be done. I said in our examination a year ago (see page 25, 1963 A.G.'s report as quoted) that this information was not completely available and the External Aid Office was to determine the extent to which these certificates had been received, but it is now dealt with in the material which I would be happy to put into the record.

The CHAIRMAN: Does the committee agree that this be taken as read and inserted in the record at this particular point of the proceedings?

Agreed.

Counterpart Funds

Mr. HENDERSON: The statement follows:

As at March 31, 1964, a total of \$218,846,247 had been expended on commodities calling for the establishment of counterpart funds, including \$21,094,000 expended during the year under review. With respect to these agreements requiring that the auditors general of the recipient countries certify the position of the counterpart funds accounts, a total of \$214,096,247 had been expended by the government of Canada and the situation as regards certification was as follows:

Certified by auditors general of recipient countries	\$191,355,000
Unreported—previous years' expenditures	2,397,247
Unreported—1963-64 expenditures	20,344,000
	<hr/>
	\$214,096,247

With respect to those agreements which do not call for certificates of the Auditors General of the recipient countries, a total of \$4,750,000 had been expended by the government of Canada and the situation as regards reporting was as follows:

Reported by recipient countries	\$ 3,390,000
Unreported—previous years' expenditures	610,000
Unreported—1963-64 expenditures	750,000
	<hr/>
	\$ 4,750,000

Another requirement of all the agreements with the recipient countries is that expenditures out of the counterpart funds on agreed economic development projects be reported by the recipient countries and certified by their auditors general. In this connection, certificates have been received as at March 31, 1964, covering expenditures out of counterpart funds which total \$32,089,428.

Mr. HALES: There is nothing here for us to go into?

Mr. HENDERSON: I think not.

Mr. McLEAN (*Charlotte*): I was amazed to read in the reports of the European Economic Community that interest was charged on a lot of this aid in these countries, and there was about \$2 billion of aid outstanding on which interest had been charged and that these countries were finding it hard even to get enough money to pay the interest on the aid. I wondered if Canada received any of it.

Mr. HENDERSON: I do not believe any interest was charged on our aid, but I would be glad to look into it.

Mr. FRANCIS: I wonder if that relates to loans from a bank?

Mr. McLEAN (*Charlotte*): They called it soft and hard; they are all tied up together.

Mr. HENDERSON: Yes, the word soft connotes a very long term loan so as to make repayment easier, and because it is a long term loan there is a very low rate of interest. I cannot say the extent to which Canada has made such loans. But I do know that they are being made. What sort of investment it represents to the lending country, I would not know. But there is interest charged rather than making it a straight give away. It is the next degree easier.

Mr. McLEAN (*Charlotte*): The two go along together, and when you say soft loan and hard loan, are these all tied together in the one package?

Mr. HENDERSON: There are no loans in the figures we have here in discussing external aid. These are for external aid by Canada in respect of which counterpart funds under the agreement have to be set aside to be spent in the countries concerned. We are talking about the difficulty Canada had in getting verification through official channels of these counterpart funds.

Mr. McLEAN (*Charlotte*): It was stated in the article that the United States received about one per cent, and that England and France received about five or six per cent.

Mr. HENDERSON: It would be quite interesting to run this down. With your permission we would be glad to do so, and give you a note on it at a later meeting.

The CHAIRMAN: Yes. Are there any more questions?

Mr. HALES: It would appear from your observation that the external aid office is doing a much better job now than it did previously in getting these certificates?

Mr. HENDERSON: That is what we feel. It was not a matter that we raised lightly at the time, because this could be an embarrassing situation for Canada to be pressing for these certificates.

Mr. HALES: What are your views on those which are reported as not certain?

Mr. HENDERSON: Well, perhaps I could give you a few notes as to the procedure. When Canada receives a request for goods, they are purchased in Canada and delivered at seaboard with the receiving country paying all the shipping costs involved. The receiving country then sells the goods to consumers at home. The local currency obtained from those sales is earmarked to

become what are known as counterpart funds and these moneys are then used for the purpose of economic development on projects in the recipient country as agreed upon with Canada. In other words, Canadian consent to the use of these funds for that purpose has to be obtained. This means there are two stages so far as accounting is concerned. The first stage is the auditor's certificate of the receiving country which states that the local currency derived from the sale of the Canadian gift, in fact, has been received. The next stage is the commitment of those funds for expenditure on the agreed upon project for the country. Accordingly there is always a time lag between shipment of Canada's aid and its accounting by the recipient country under this arrangement and the external aid office has to follow through on each shipment. This is not always easy, particularly so when it becomes necessary for them to press for the certificates, which I must call for as my officers audit the various steps. That is why I say that a 90 per cent achievement is, I think, fair enough. The figure you see here represents the ones that have not to date come through. In other cases, we may never receive certificates.

Mr. HALES: It would seem to me that we should have some better system than we have at the present time.

Mr. HENDERSON: So long as Canada is going to require that the auditor generals of the commonwealth countries certify these shipments in this way then, presumably, difficulties can be expected to develop and delays follow.

I should have thought possibly there might have been a simpler form of certificate which could be obtained. But, this is the way it was required to be done in the agreements and it is my duty to follow it up and see that they are obtained. The external aid office has gone to a great deal of work to bring the record up to this level, and that is why I say I think it is a pretty fair report under the circumstances.

Mr. SOUTHAM: I have a supplementary question to put at this time. On the basis of our experience in the processes of accounting is this procedure similar to what the United States use in accounting its external aid to Latin American or other comparative countries?

Mr. HENDERSON: Frankly, I cannot answer that. I should be able to do so, but in view of my officer, who is responsible for this, not being here this morning I am not able to say. And, I do not know whether he would know the United States practice. I know some of the other commonwealth countries operate this practice.

Mr. SOUTHAM: The reason I put the question is that it has come to our attention from time to time that the Americans down south have experienced some difficulty in this area and it is not the kind of criticism we would like to have directed toward us in respect of this program. I would hope that we would not find ourselves in that same category. I do agree that the figure of 90 per cent, under this type of auditing program, seems to be a relatively good record.

Mr. HENDERSON: In the whole scheme of things, as you envisage the aid going out, the obtaining of the certificate to cover this is pretty minor, and it is something that can get pushed off to one side. But, this can be embarrassing. I think Mr. Moran explained to the committee how he had to keep getting after them for the certificates.

The CHAIRMAN: When Mr. Moran was here he explained that one of the difficulties was in respect of some of the new emerging countries, which did not have their audit staffs up to the same degree of efficiency as ours. He said that one of the problems was the establishment of the Auditor General's staff and, as I say, this is one of the difficulties they were up against. But, Mr.

Moran said that he was making frequent trips to these countries and the results which Mr. Henderson has indicated to us this morning show there has been this improvement.

Mr. McLEAN (*Charlotte*): It is my understanding that the United States authorities have shipped material and it has remained piled up at the seaport. So, you could hardly obtain a certificate for that.

Mr. McMILLAN: Directly over what period of time was this \$197 million odd spent on commodities for external aid?

Mr. HENDERSON: I am just giving you a quick figure, and I would say possibly in the period of about seven or eight years. Dr. McMillan, I would like to check that with Mr. Moran after the committee adjourns.

The CHAIRMAN: Are there any further questions on this paragraph? If not, we will proceed to the next paragraph, which is paragraph number 62.

62. *Isolation allowances to judges of territorial courts.* Consideration was given by the Department of Justice in the latter part of 1962 to the question of paying isolation allowances to the judges of the two territorial courts. Initially the view was taken that since judges are not in the "public service" within the meaning of section 7 of the Financial Administration Act, the treasury board lacked authority under that Act to authorize the contemplated allowances and that, as the Judges Act, R.S. c. 159, prohibits the payment to a judge of any remuneration, other than a living allowance and moving and transportation expenses, the authority of parliament would be essential to the payment of isolation allowances.

It was accordingly decided that, until such time as it might be regarded as appropriate to seek an amendment to the Judges Act to provide for additional remuneration to judges, each of the judges of the two territorial courts should be paid an isolation allowance pursuant to an item to be included in the earliest possible estimates. However, parliament was dissolved before it had an opportunity to consider an estimates item relating to the matter. Nevertheless, with treasury board approval, payments of \$1,000 were made in March 1963 to each of the judges of the two territorial courts, for isolation allowances at the rate of \$2,000 per annum, effective October 1, 1962.

Mr. HENDERSON: As the Chairman has told you, the next item is paragraph 62, which is isolation allowances to judges of territorial courts. This appears on page 32.

The payments described here cover what was termed an isolation allowance for two judges, paid with treasury board approval in March, 1963, at the rate of \$2,000 per annum. We had questioned whether the treasury board could authorize these allowances because the Judges Act appeared to us to prohibit the payment to a judge of any remuneration of this nature and consequently the authority of parliament seemed to us to be essential to the payment of these isolation allowances.

It had been proposed to provide for these payments by an item to be included in the earliest possible estimates, but parliament was dissolved before it had an opportunity to consider any estimates item which had been prepared to cover the proposed payments. Accordingly, the treasury board authorized the use of the general salaries vote to supplement appropriations of the Department of Justice. Since then, with respect to the fiscal year 1963-64 the course was followed of including specific provision for these items in supplementary estimates.

I have discussed this paragraph with Mr. E. A. Driedger, the deputy minister of justice, since the comment appeared in my 1963 report. He says that

while it would have been desirable to have had specific parliamentary authority for the payment of the isolation allowances by means of an amendment to the Judges Act so as to avoid the necessity of requesting annual appropriations from parliament or, as a temporary expedient, an estimates item specifically providing for the allowances, nevertheless in his view there was no impediment, statutory or otherwise, to the payment of these additional allowances to the judges in question.

Under the circumstances, I think the members of the committee will be satisfied that the matter has been adequately taken care of.

The CHAIRMAN: Are there any questions or comments?

Mr. REGAN: My only question would be this. Are you satisfied that that is the case; in other words, that there is no impediment?

Mr. HENDERSON: I have been without benefit of legal advisers since last May, as you know and, consequently, I cannot express any legal opinion on this thus far. But, Mr. Driedger has given that to me as his opinion.

The CHAIRMAN: Are there any further questions or comments on this paragraph? If not, we will proceed to paragraph 63.

63. *Unemployment insurance administration.* The Unemployment Insurance Act, 1955, c. 50, is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the governor in council. The administrative expenses of the commission are paid out of an annual parliamentary appropriation (Department of Labour Vote 50) in accordance with section 10 of the act. These expenses amounted to \$48,034,000 in 1962-63 compared with \$45,935,000 for the preceding year. Despite a reduction in full-time staff from 8,941 at March 31, 1962 to 8,726 at March 31, 1963 and in casual employees from 1,904 to 1,432 at the respective year-ends, salaries rose by \$2,242,000, due mainly to a general salary increase granted during the year. This, offset to the extent of \$285,000 by savings effected in the cost of office stationery, supplies and equipment, accounted for most of the net increase of \$2,099,000 in administrative expenses during the year.

In our 1960 report we referred at some length to the broader coverage which had been effected over the years, and the resulting decrease in the emphasis on insurance principles recognized when the unemployment insurance fund was first established. The public accounts committee, having expressed concern over the sharp reduction in the balance of the fund at that time, recommended in its fifth report 1961 (paragraph 80):

"that the entire matter undergo immediate and careful study and that action be taken to re-establish and maintain the Fund on a basis consistent with insurance principles."

A special committee of inquiry was established by the governor in council on July 17, 1961 to inquire into and report upon the suitability of the scope, basic principles and provisions of the Unemployment Insurance Act, including its relationship to other social security programs, the measures needed to deal with seasonal unemployment and the means of correcting any abuses or deficiencies that might be found to exist. The committee's report was tabled in the house by the Prime Minister on December 20, 1962.

The committee recommended the adoption of a three-part program of support for the unemployed, as follows: (i) an insurance plan to cover short-term unemployment with benefits limited to 26 weeks, financed

solely by employer-employee contributions; (ii) a plan, financed out of general taxation revenues, to provide extended benefits up to a maximum of 39 weeks to persons who have exhausted their insurance benefits and, subject to certain conditions, to persons whose unemployment follows a seasonal pattern; and (iii) an assistance plan to take care of residual 'hard core' unemployment, applied on a needs-test basis under the present federal-provincial unemployment assistance program.

The committee proposed that the unemployment insurance plan be based on insurance principles and to this end it recommended, in part, that:

- (a) the plan be extended to cover all but a few classes of employees;
- (b) the present seasonal benefit program be amended so that insurance benefits would not be paid during any period of unemployment that, on the basis of a claimant's personal employment record, is shown to be of a repetitive seasonal character; and
- (c) coverage of self-employed fishermen be withdrawn and replaced by a separate plan to be developed under the Department of Fisheries.

The committee also made recommendations designed to lessen abuses to which the present plan has been subjected. These included the adoption of programs: to provide for more active claims supervision and more vigorous follow-up of cases in an effort to identify those who are not genuinely seeking employment; to improve interviewing techniques and procedures as a means of determining the true facts concerning availability for employment; and to increase the extent of post-auditing procedures in connection with claims to bring to light possible concealment of earnings.

The public accounts committee, in its fifth report 1961 (paragraph 81), recommended:

"that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field."

Notwithstanding our continuing staff shortage, arrangements were made to increase the number of offices visited in 1962-63, by curtailing other work.

In keeping with past practice, we reported to the chief commissioner on each of the examinations made during the year. Prompt attention was given to all audit observations raised and corrective action taken where called for. Briefly, our examinations are designed to test the adequacy of internal control over the collection of and accounting for contributions and other income, the payment of benefits and the recording and collection of overpayments. The extent to which adjudication of claims complies with the provisions of the act and regulations is likewise examined. In appraising the validity of benefit awards, no attempt is made by the audit office to verify the accuracy or completeness of information regarding claimants, contained in the records of the commission and provided to it by claimants, employers or others, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the commission's own investigation-enforcement staff. Although operating at a slightly lower level of strength during 1962-63, this staff achieved a slight increase in the number of investigations completed over that of the preceding year. Notwithstanding this increase, penalties imposed on claimants for

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false or misleading statements were fewer in number, totalling 20,367 compared with 22,650 in 1961-62, a drop of 10 per cent.

The transactions of the unemployment insurance fund, administered by the commission, are reported upon in paragraph 181 of this report.

Mr. HENDERSON: Paragraph 63 is in respect of the unemployment insurance administration.

Now, we dealt with this paragraph at the time it appeared during previous consideration of this report and I do not think perhaps the members of the committee will want to spend very much time on this. In fact, you already have commented on the unemployment insurance fund in one of your reports presented to the house.

We have followed the practice for the past two years, particularly because the unemployment insurance fund has not as yet been fixed up, of saying something about the administration of the commission, the size of its expenditures and overhead, and also because while we are certifying the financial statements of the Unemployment Insurance Commission as a separate matter there has still been no change made in the act requiring those statements to be prepared. In other words, the arrangement has not yet been put on a statutory basis, which this committee recommended, as well as the Gill committee of inquiry. As you know, that committee made a similar recommendation.

I would like to ask the members of the committee a question. Does this type of approach to this type of thing commend itself to you in terms of showing something of the costs of this sort of administration in a paragraph of this type?

The CHAIRMAN: Are there any comments on this?

Mr. McLEAN (*Charlotte*): Is the expense of \$48 million not charged against the fund?

Mr. HENDERSON: No; that is a separate parliamentary appropriation for administrative expenses.

Mr. McLEAN (*Charlotte*): I would think it should have been.

Mr. HENDERSON: The only thing that is charged against the fund is the assistance it pays out. It would not have room to pay this.

Mr. McLEAN (*Charlotte*): I know it would not, but how do we know how much the fund is costing the taxpayer?

Mr. HENDERSON: There is a statement in the back of my report as well as in the public accounts, giving the full position of the fund itself. There is a cross reference from this which refers to the administration that is being brought to it and what this is costing. Elsewhere we show the precise position of the fund itself.

The CHAIRMAN: Are there any other comments?

Mr. McMILLAN: Do you spot audit any of the contributions made under that fund?

Mr. HENDERSON: Do you mean the disbursements made under it?

Mr. McMILLAN: Yes.

Mr. HENDERSON: I would like Mr. Douglas to speak to that. He carries out that work on a test examination basis.

Mr. DOUGLAS: Were you speaking of contributions or what was the nature of your inquiry?

Mr. McMILLAN: I was referring to benefits paid.

Mr. DOUGLAS: Oh, yes, we do, on a cyclical basis. We have a program designed to cover all the local offices of the commission periodically. We go into

each local office and we do a percentage test of the benefit payments, paying particular attention to the actual adjudication of the claim and whether we feel it is in accordance with the statutory requirements and the regulations of the governor in council. We do the usual cash audit, you might say, of the local office, verification of the bank account and so on.

Mr. McMILLAN: Are changes in respect of benefits paid made by regulations rather than by legislation?

Mr. DOUGLAS: The actual benefits payments would be by legislation. We submit individual reports of each audit we do to the commission.

Mr. HALES: Prior to the 1961 meeting of the public accounts committee I do not think the Auditor General's department was making spot checks of the commission. Am I correct in this assumption?

Mr. HENDERSON: We were asked by the 1961 committee. I think it was, to step up, if we could, the frequency of our audits. That was when we had the officers of the commission before the committee. And, that we did. As Mr. Douglas has explained, he is now able to cover more offices, and after he has completed the tests that he mentioned the audit findings are referred to the chairman of the commission and are checked right out.

Mr. HALES: Could I ask Mr. Douglas if they have found discrepancies in any large amounts, which are serious, in these spot audits?

Mr. DOUGLAS: I would not say so, Mr. Hales. Of course, we do find discrepancies. We disagree with them at times in matters of adjudication. We make recommendations about strengthening their over-all system of internal control and so on, but we have not found what you would call any serious errors or discrepancies.

Mr. HALES: As you know, the unemployment insurance offices pay these benefits in cash. As a result of this they handle a terrifically large amount of money. In our community I think it is every Tuesday that they pay out these benefits, and in mid-winter there are tremendous amounts of money handled, all in cash. Are you satisfied that paying in cash is the best system?

Mr. DOUGLAS: Well, actually, there is a change under consideration at the present time. Of course, presently payments are made both by cash, and warrant for those who are not convenient to a local office. When they are not convenient to these offices the payments are by warrant.

At the present time an electronic computer system is being considered. It is presently being tried out in Winnipeg, and when all the difficulties are ironed out it is expected in due course it will be put in all across the country, which will pretty well eliminate cash payments.

Mr. McLEAN (Charlotte): I would like to ask Mr. Henderson this question. We all know this is supposed to be an unemployment insurance fund. However, is it run as an employment insurance fund? In my opinion, if it was, we would not have the deficits in the fund which we have. I was wondering whether it was done on an actuarial basis and if you have made any report in respect of actual rat holes in the fund with regard to where the money is going.

Mr. HENDERSON: We brought that before the committee. It was because of the remarks we made in my 1960 report that in 1961 this committee brought the officers of the commission before it, and then came out in very strong terms pinpointing the rat holes that you mentioned very clearly. And, it was shortly after this committee's report in 1961 in this respect that the Gill committee actually was formed. If I have not repeated then all again in subsequent reports—we have, I think, dealt with them in other paragraphs which you already have discussed—it is because we are standing by awaiting some action which this committee has called for in its reports to the house.

The CHAIRMAN: One of our reports this year did suggest that.

Mr. HENDERSON: Yes, I have a separate note here on the unemployment insurance itself. At page 143 of this report you will find the whole picture of the fund itself. But, you interest me by the question you put because it might be a useful exercise to reiterate some of these rat holes that you mentioned. But, as I say, the figures and the financial position is shown at page 143.

Mr. McLEAN (Charlotte): I notice there is noted a \$7,269,000 loss on the sale of securities. Are they in the stock and bond business as well?

Mr. HENDERSON: Well, if you will look at page 144 you will see what happened. They got rid of their investments and how they got rid of them is explained there. This is when they were holding securities and, in this case, they were not saddled with the loss, the Minister of Finance having taken the investments over at par.

Mr. McMILLAN: At par.

Mr. HENDERSON: Yes.

The CHAIRMAN: For your information, Mr. McLean, our fourth report dated in July, 1964 set out in paragraph 36, that the committee feels it to be in the public interest that the government's consideration of the report of the committee of inquiry be completed as soon as possible and that the government bring forward such proposals as it may deem necessary to deal with the problems raised by the reports, which are the same problems you mentioned, Mr. McLean.

Mr. McLEAN (Charlotte): Is there any real reason for them to go into the securities business? Can they not do double entry bookkeeping?

Mr. HENDERSON: Well, that would not absolve them from absorbing the loss.

Mr. McLEAN (Charlotte): I know that.

Mr. HENDERSON: The assets of the fund used to be kept in the form of negotiable securities guaranteed by the dominion of Canada, and I think they were dominion of Canada bonds and Canadian National Railways bonds, and as they needed money they would liquidate them, as a result of which they took some substantial losses.

They remained in that position through the end of 1962. Now, in the year you are seeing there they had to take a loss of \$7 million. The following year it was only \$632,000. As I said, these investments were taken over at the book value by the Minister of Finance in the year 1962-63, and they are no longer in such a vulnerable position. They were heavy traders in the market.

Mr. MacLEAN (Queens): Why should they not keep out of the market and simply owe the market or the government for them, and just have a system of bookkeeping?

Mr. HENDERSON: How they are going to do these things is a matter for the Department of Finance to decide. Mr. Fleming, the then minister of finance in 1961-62, did change the method, and as explained on page 144, no losses on sales of securities, therefore, are going to appear in the future.

Mr. McLEAN (Charlotte): It seems to me it is just taking out of one pocket and putting it into another, and if they go into the market they will be just taking a loss in doing so.

Mr. HARKNESS: The whole reason they were buying securities was to earn an interest to build up the fund.

Mr. McLEAN (Charlotte): Could not the government pay interest on what they owed them?

Mr. HARKNESS: It is not so much a matter of that. The fund was building up for years by the contributions of employers and employees and there was no use in having the money sitting there.

Mr. McLEAN (*Charlotte*): All you have to do is implement a bookkeeping procedure. The United States tried that in respect of their insurance and found out they could not get enough storage space to take care of all the bonds.

Mr. FRANCIS: I believe the investment was entirely government of Canada securities.

Mr. HENDERSON: Yes.

Mr. FRANCIS: In other words, it raised a question in respect of the advice that was given in the terms of the operation with regard to securities, and I think that is a broader question of policy.

Mr. HENDERSON: The purpose of the take-over in 1962-63 was explained to the house by the Minister of Finance so as to remove from the bond market the fund holdings of government securities which because of their size and volume of sales and purchases were exerting an unstabilizing influence on the market.

They had a very substantial portfolio. That statement was made in the house by him and subsequently the Department of Finance took over the portfolio of the fund at that time at book value—that is to say, what the fund paid for it—and substituted for it a special issue of non-marketable securities.

Mr. McLEAN (*Charlotte*): If it was anything else but government bonds I could see that, but they are taking it out of one pocket and putting it into another one.

Mr. HENDERSON: They are paying interest to the fund now on this paper that they gave in exchange for the securities.

Mr. McLEAN (*Charlotte*): I did not know the fund had anything upon which to pay interest.

The CHAIRMAN: Are there any further questions on this item?

Mr. McMILLAN: One thing I have noticed in practising medicine is this: in respect of men who have gone on pension, for instance, some would receive benefits under the Unemployment Insurance Act for a year while others would not. Do you people check that sort of thing?

Mr. HENDERSON: Well, I think that would come to a greater degree under the inspector's role than under our external auditing. They have their own inspectors checking the individual cases. We do not contact the public, you see. Perhaps Mr. Douglas could enlarge on what I have said.

Mr. DOUGLAS: The problem here is that it is a matter which involves personal integrity of the individual concerned. Now, to draw insurance a person must be in the labour market. Some people who retire, particularly on small pensions, do continue to be in the labour market if they are in good health, and if they cannot get a job, then they are entitled to insurance. But, many people who retire have no intention whatsoever of taking any job and they will register notwithstanding that fact with the unemployment insurance office for the purpose of drawing their unemployment insurance benefits which, of course, they are not entitled to under these circumstances. Now, this is a very very difficult problem with which to deal, and unless there are special safeguards in the act and regulations, which is one of the problems the Gill committee considered, there is not much an auditor can do about it.

Mr. SOUTHAM: In other words, you are saying there are a certain number of people using it as a pension fund rather than for the purpose for which it was intended?

Mr. DOUGLAS: Yes. In respect of the rat holes you have mentioned, we have referred to these in certain cases in our report.

Mr. SOUTHAM: This is the sort of thing that will have to be weeded out.

Mr. DOUGLAS: Yes.

Mr. McMILLAN: There must be regulations by order in council over and above the legislation to cover this sort of thing.

Mr. DOUGLAS: That is correct.

The CHAIRMAN: Are there any further questions? If not, we will proceed to paragraph 71.

71. *Unemployment Assistance.* Under the Unemployment Assistance Act, 1956, c. 26, the federal government contributes to the provinces and territories 50 per cent of the cost of providing financial assistance to persons unemployed and in need.

In paragraph 84 of last year's Report the Audit Office opinion was repeated that the Unemployment Assistance Act administered by the Department of National Health and Welfare includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration. Our examinations during the year under review confirmed our opinion. Possible changes in the legislation, and the use of regulations, mentioned in last year's Report as being under study by the Department, are still being actively considered.

Overpayments to Province of Quebec.—In Quebec the final adjustments in respect of overpayments referred to in our 1962 Report, which related to the period from July 1, 1958 to December 31, 1961, are still under consideration. The department has agreed to accept Quebec welfare agencies as agents of the province, and their records of persons assisted as the province's records within the meaning of section 6 of the agreement.

The arrangement first reported in 1961 whereby the audit services branch of the office of the comptroller of the treasury has been participating with the provincial auditor of Quebec in a joint audit of the accounts received by the province from homes for special care and welfare agencies continues. The practice followed in other provinces whereby the provincial auditor's examination of claims and certification in accordance with the agreement precede separate examinations made on behalf of the federal government will, we understand, be followed now that the joint audit has been completed to December 31, 1961.

Work for Relief.—Although our examinations have not revealed further instances where recipients had been required to work in return for assistance given them, a number of municipalities continue to advocate this. The provinces have not acceded to these representations although Prince Edward Island provides in its provincial home for the Aged Act that inmates of the home who are capable of working may be required to work in and about the home.

Supplemental Allowances in British Columbia.—Reference was made in our 1961 and 1962 reports to the department having agreed that supplemental allowances normally excluded under section 4(2) of the act could be regarded as additional relief payments in accordance with section 4 (3) (b) of the act and section 8 of the agreement when the amounts are based on individual budgetary assessments of need in which basic expenditures as well as income are considered. In those reports we expressed doubt about the way in which British Columbia had made such budgetary assessments of need and in the 1962 report we mentioned that overpayments estimated at \$111,400 had been re-

covered. However, during the year under review the province objected to this estimate and it was agreed that a new calculation of the overpayments be made. At the year-end the recalculation of the overpayments had not been completed.

We also drew attention last year to the use in British Columbia of two different scales of maximum basic assistance, the more generous one being for those eligible for supplemental allowances. This discriminates against applicants not entitled to supplemental allowances, that is those under 65 and those over 65 who have not been residents of the province for three years. We expressed doubt as to the propriety of maintaining the three-year residence requirement and suggested that uniform standards of assistance should be applied if supplemental allowances are to be considered shareable under the Unemployment Assistance Act. The situation remains unchanged.

Inconsistencies in Comforts Allowance.—In an earlier report we expressed the opinion that sections 4 (2) (b) and 4 (3) (b) of the Unemployment Assistance Act, taken together, appear to require that the full amount of a recipient's income be offset against the calculated cost of meeting his needs to arrive at the amount of unemployment assistance that is shareable under the act. It is an established principle that unemployment assistance is to be based on need and in the case of a recipient with some income, is only intended to supply the additional amount required so that his income plus unemployment assistance will enable him to meet his needs.

The use of a portion of a recipient's income to meet his need for comforts has been accepted because this is, in effect, the same as providing a like amount for comforts in the unemployment assistance granted. However, our examinations have disclosed that in homes for special care in some provinces the amount of the comforts allowances to inmates seemed to depend not on the inmates' need but rather on whether or not they had some personal income. Thus, if an inmate were in receipt of old age assistance or old age security payments, he would be allowed \$15 per month, whereas if he were dependent entirely on unemployment assistance his comforts allowance would only be \$5 per month. The effect of this arbitrary practice is not only to discriminate on the basis of the economic status of the recipient but in some cases it leads to the building up of individual trust account balances from the unspent proceeds of these allowances which may be used to cover expenses excluded from unemployment assistance costs by section 4 (2) (d) of the act. An additional effect, of course, is to increase the federal government's share of the cost of the unemployment assistance program.

Mothers' allowances.—The Unemployment Assistance Act and the statutory agreement form provide for the exclusion of recipients of mothers' allowances (provincial allowances designed to assist mothers whose families have been deprived of the wage earner). In last year's report we reviewed the mergers of mothers' allowances with general welfare assistance and the provision in the agreement for compensating deductions to be made when determining unemployment assistance costs. The artificial nature of some of these mergers was also drawn to attention.

In the current year the province of Ontario established a new class of assistance called assistance to dependent fathers comprising all the former mothers' allowance cases involving dependent fathers. These cases were then transferred from the mothers' allowance program to

general welfare assistance, the Province thus being able to recover a substantial portion of the cost from the federal government under the Unemployment Assistance Act. Although the merger of dependent fathers' cases with the general social assistance caseload has involved essentially only a change in name, the Department of National Health and Welfare considers the exclusion in the act and agreement applies only to assistance payments called "mothers' allowances" and has therefore been allowing the dependent fathers' cases. It is interesting to note that in over half of these cases, the assistance paid is only in respect of their wives and children. Among this group are fathers who are inmates of mental hospitals and tuberculosis sanatoria and who are thereby excluded from receipt of unemployment assistance by virtue of section 4(2)(a) of the Unemployment Assistance Act.

Educational costs.—Examinations in Alberta and Saskatchewan reveal that claims sometimes include the cost of tuition, books and living allowances for persons training as teachers, nurses, farmers and barbers, together with allowances for their dependents. In addition, regulations under Ontario's General Welfare Assistance Act provide for rehabilitation services, including vocational training the cost of which, it is understood, has been included in the province's unemployment assistance claims. A similar problem also arises in the province of Quebec in connection with assistance to children aged 18 to 21 who are undertaking studies. It is doubtful whether costs such as the above are within the scope of the Unemployment Assistance Act and agreement.

Interpretation of "unemployed".—In our 1961 report we noted that the word "unemployed" as used in the act was considered to include such persons as mental defectives and paraplegics when, even in its broadest sense, the term would normally be expected to include only persons, who have been, are or will be capable of employment.

A related question is to what extent may an applicant be employed and still be considered unemployed for purposes of the act. By and large, assistance to persons employed full time is excluded even though their earnings are insufficient to meet their needs. On the other hand a person who works only casually is considered to be unemployed and may be assisted under the act if his income is insufficient to meet his needs.

However, problems arise in determining whether persons engaged in certain types of employment, for example employees who regularly work half days, tax drivers, housekeepers, woodsmen and own account workers, are unemployed. In addition, there is a risk that unemployment assistance to such persons may be used to subsidize low wages or to tide over the proprietor of a new business until the enterprise becomes profitable. In our opinion a clarification of the term 'unemployment', possibly by definition in the act, is highly desirable.

Strengthening administrative control.—Last year we referred to the department's difficulties in the administration of the act and suggested that it assemble its own internal audit group to take responsibility for the verification of unemployment assistance costs claimed by the provinces. This suggestion has been accepted and the necessary additional staff is being recruited. The department plans to co-ordinate the new staff with its examiners of categorical allowances to obtain a comprehensive continuous review of provincial welfare administration as it affects the federal-provincial agreements in the welfare field. This strengthening of the department's review of claims and control procedures should reduce its difficulties in administering this complex program.

In paragraph 74 of our 1961 Report it was suggested that because of the relationship between the Unemployment Assistance Act and other federal social assistance programs, consideration should be given to the need for over-all co-ordination of all programs involving assistance to individuals to avoid overlapping and duplication and to achieve greater equity in the treatment of individuals as well as to reduce the cost of administration. In our opinion steps along these lines should be taken without delay in view of the increasing size and complexity of welfare administration.

Mr. HENDERSON: Paragraph 71 deals with unemployment assistance and this was the subject of discussion last December when Dr. Willard, deputy minister of welfare, was a witness before the committee. I think it was in the fourth report of the 1963 committee that you expressed yourselves on the subject. Therefore, Mr. Chairman, I suggest there might not be much point at this time in going over this matter again.

You will recall, as the paragraph shows, on pages 42 and 43, that we have had a great deal to say about the ambiguities that exist in this legislation and the difficulties with which we are faced in trying to do a satisfactory audit. Dr. Willard confirmed the correctness of our remarks in this respect when he was before the committee. But, we are now awaiting the outcome of discussions with the provinces. Therefore, I suggest there is not much use going into this at this time.

The CHAIRMAN: Yes. The committee recommended that these anomalies be removed. We considered your views and the views expressed by Dr. Willard and our committee report was made. I see no useful purpose at this time in dealing with it further.

The next paragraph will be number 78.

78. *Payment made for houses the cost of which had previously been provided for through loans still outstanding.* An Eskimo Loan Fund was established by Appropriation Act No. 3, 1953 for the purpose of making loans to individual Eskimos or groups of Eskimos under conditions prescribed by the Treasury Board. By March 31, 1963 outstanding loans amounted to \$232,317 of which \$52,500 had been extended to a group of 15 Eskimos at Frobisher Bay, N.W.T.

The circumstances in the case of the Frobisher Bay Eskimo group are unusual. Early in 1962 this group incorporated as a co-operative for the express purpose of acquiring housing. Agreement was reached between the co-operative and the Department of Northern Affairs and National Resources that: (a) the Department would invite tenders for 15 prefabricated houses and place a contract after the Eskimos had signified approval; (b) payment would be made to the contractor by the co-operative for the total price, less \$15,000 for which the department agreed to assume responsibility; and (c) in order that the co-operative would have sufficient funds to pay the contractor and to meet shipping costs, the department would make a loan of \$3,500 from the Eskimo Loan Fund to each of the 15 Eskimos who, in turn, would endorse his cheque for deposit to the credit of the co-operative.

As agreed, the cheques, collectively amounting to \$52,500, were issued to the Eskimos from the Loan Fund and endorsed by them to the co-operative. At this point the department sought and obtained Treasury Board approval to charge the full cost of the houses to a departmental appropriation. In February 1963, the Department's Welfare and Industrial Division appropriation for "Construction or Acquisition of Buildings, Works, Land and Equipment" (Vote 95) was charged

with a payment of \$69,705, the f.o.b. Montreal cost of the houses. The loans were not, however, at the same time recalled by the department.

The loans had not been repaid as at March 31, 1963 and interest charges had raised the total outstanding to \$53,540. Subsequent to the year-end, authority was granted to waive interest on each of the \$3,500 loans until such time as each Eskimo occupied his house (it was estimated that the last of the 15 houses would be occupied by November 1, 1963). Less than \$800 had been repaid on these loans to September 15, 1963.

Mr. HENDERSON: Paragraph 78 has to do with payment made for houses the cost of which had been provided for previously through loans still outstanding.

This note outlines a highly unusual set of circumstances regarding loans to the Eskimos and, with your permission, I am going to ask Mr. Smith to speak about it, unless perhaps you have any questions to put first.

Mr. D. A. SMITH (*Audit Director, Auditor General's Office*): Mr. Chairman, perhaps it might assist the committee in disposing of this matter fairly rapidly if I were to state that the situation which existed at March 31, 1963, was remedied in the following December, 1963, by the refunding to the Eskimo loan fund the amount of \$52,500 plus interest, to which we referred in this paragraph.

The CHAIRMAN: In other words, the situation has been removed.

Mr. SMITH: Yes, in the interim.

The CHAIRMAN: This matter has been cleared up.

Mr. SMITH: Yes.

The CHAIRMAN: Are you satisfied to pass on, gentlemen?

Agreed.

Mr. HENDERSON: We dealt with paragraphs 90 and 91 when the deputy minister of veterans affairs was here on Tuesday with Dr. Crawford. We might now go on to paragraph 97 which is losses reported in the public accounts.

97. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the public officers guarantee account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the public accounts".

The statements of losses included in the public accounts for 1962-63 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the public accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the post office numbered 26 and amounted to \$136,116. Of these, 13 involving \$88,335 were recovered in full during the year, and partial recoveries of \$4,932 were obtained in other cases. Losses suffered by the Post Office Department numbered 141 and amounted to \$75,460. Of these, 107 to a total of \$44,270 were recovered in full and partial recoveries totalled \$12,007.

This is a standard paragraph in my reports each year, indicating the payments that have been made out of the public officers guarantee account. You will note here that losses in departments other than the post office numbered 26 and amounted to \$136,116. Of these, 13, involving \$88,335, were recovered in full during the year, and partial recoveries of \$4,932 were

obtained in other cases. Losses suffered by the post office department numbered 141, and amounted to \$75,460. Of these 107 to a total of \$44,270 were recovered in full and partial recoveries totalled \$12,007.

The CHAIRMAN: Is there any comment on this paragraph, gentlemen?

Mr. McMILLAN: We are not dealing with the post office losses, and so on, under this item?

Mr. HENDERSON: No; I will deal with that under the post office paragraph later on. There are a number of those cases and they are charged against the special fund which the post office carries.

We now come to paragraph 98.

98. *Non-productive payments.* Paragraph 71 of the Fifth Report 1961 of the public accounts committee reads:

"The committee gave consideration to the extent to which it felt it would wish to be informed regarding non-productive payments in future. Although it recognized the difficulty that would be involved in defining a 'non-productive payment', it came to the conclusion that information regarding such payments would be of value, and it accordingly requests the Auditor General, in his future annual reports to the House of Commons, to include listings of any such payments that might have come to his notice in the course of his audit."

In accordance with the request contained in the foregoing observation, a listing is given, as appendix 1 to this report, of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of expenditures for the fiscal year 1962-63.

It is necessary to turn to appendix I of the report on page 148 where these are listed. You have dealt with all of these non-productive payments appearing in the appendix except six of them. The first is No. 1 having to do with the Indian affairs branch of the Department of Citizenship and Immigration. Then there are numbers 3 and 4 dealing with penitentiaries. Number 5 is in respect of the Unemployment Insurance Commission concerning the cancellation of a management consultants' survey. Number 6 involves the Department of Northern Affairs and National Resources and No. 34 is a board of transport commissioners' non-productive expense.

I do not know whether or not members would have any questions on these, Mr. Chairman.

The CHAIRMAN: I hope this will be as far as we will go at this time, but before we leave this, are there any questions to ask on these special items Mr. Henderson has placed before us? If not, we might adjourn at this time. On Tuesday we will have Mr. Anderson, the chairman of the Canadian Pension Commission and on Thursday of next week we will have Mr. Cromb of the war veterans allowance board.

If the members of the committee feel there is nothing in these particular items on which they wish to question Mr. Henderson, we might adjourn now.

Mr. SOUTHAM: In the process of auditing in the intervening period, March 31, 1963 to the present, has Mr. Henderson noticed that there has been a general improvement regarding these items?

Mr. HENDERSON: I shall have such cases in my 1964 report which is now in process of preparation.

The CHAIRMAN: Gentlemen, we will adjourn until 9.30 a.m. on Tuesday.

APPENDIX

Department of Health and Welfare

OTTAWA June 15, 1964

Mr. A. M. Henderson,
Auditor General,
Justice Building,
Ottawa, Ontario.

Dear Mr. Henderson:

I would like to inform you of the action taken by this Department with respect to Item 74 in your 1962-63 report to Parliament. This item dealt with the unauthorized use of a Departmental vehicle by a member of the staff of the Food and Drug Directorate while on educational leave. The following is a summary of the facts of this case and the action taken thereon:

By Treasury Board Minute dated November 22, 1962 (T.B. 602411) Mr. Gagne was authorized to attend a short course at the University of Montreal on Sanitation Hygiene. This minute authorized payment of a non-accountable allowance equivalent to full salary, tuition fees of \$250.00 and return transportation expenses for Mr. Gagné from Quebec to Montreal. This Minute was subsequently amended on April 3, 1963, at the request of the Department. The latter Minute authorized the payment of a subsistence allowance of \$175.00 per month for the 11 week portion of the course held in Montreal and actual living and transportation expenses, the total not to exceed \$165.00, for the two week portion of the course held at St. Hyacinthe, Quebec.

All Mr. Gagne's accounts were reduced to the above limits when final settlement was made. Mr. Gagne's accounts included costs of operating a departmental vehicle during this period. Mr. Gagne apparently assumed that for purposes of the orders concerning the use of departmental vehicles, attendance at courses could be taken as equivalent to being on duty. Senior officers in the Department had not realized that Mr. Gagne had made this interpretation.

It has definitely been established that the departmental vehicle was used exclusively by Mr. Gagne in connection with his attendance at this course during this period.

Since this matter was brought to the attention of the Department by the Auditor General's representative, the Chief Administrative Officer for the Food and Drug Directorate recommended that the following action should be taken by the Department and this action has been implemented:

1. The Department would not attempt to recover any monies from Mr. Gagne for the unauthorized use of the vehicle because he had not been adequately informed as to the conditions under which his attendance at University had been approved and his senior officials took no action to inform him of the fact that he was using the vehicle for an unauthorized purpose.
2. The Department would not request Treasury Board approval for Mr. Gagne's use of the vehicle because such use was not warranted.
3. That copies of all future Treasury Board Submissions for educational leave and Treasury Board Minutes authorizing such leave be sent to one person in the Directorate (the Chief Administrative

Officer) who will in turn be responsible for ensuring that they are complete, fully complied with and that the persons granted leave receive complete instructions and details as to the terms and conditions of such leave.

4. That every effort should be made to reduce the delays between the issuance of Treasury Board Minutes and their receipt by the line officers concerned.

In addition to the above, this matter has been thoroughly discussed with the line officers concerned and all other field officers. I am certain they will take every precaution to ensure that such misuse will not re-occur in the foreseeable future.

I trust the Committee will concur with the action taken by this Department.

Yours truly,

G. D. W. Cameron, M.D., D.P.H.,
Deputy Minister of Health.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 22

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

TUESDAY, OCTOBER 27, 1964

WITNESSES:

Mr. T. D. Anderson, Chairman, Canadian Pension Commission; Mr. A. M. Henderson, Auditor General of Canada, and Mr. J. R. Douglas of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

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Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, October 27, 1964.
(36)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Vice Chairman, Mr. Paul Tardif, presided.

Members present: Messrs. Cameron (*High Park*) Cardiff, Choquette, Danforth, Fane, Forbes, Frenette, Harkness, Legault, Loisselle, McLean (*Charlotte*), McMillan, Pilon, Rock, Southam, Stefanson, Stenson, Tardif and Winch.—19.

In attendance: Mr. T. D. Anderson, Chairman, Canadian Pension Commission; Mr. A. M. Henderson, Auditor General of Canada and Messrs. J. R. Douglas and F. A. Dixon of the Auditor General's office.

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

On paragraphs 107 of the 1962 Report and 92 of the 1963 Report, *Awards under the Pension Act*, the Auditor General made a comprehensive statement relating to the application of this legislation, and was examined thereon, assisted by Mr. Douglas.

Mr. Anderson commented on Mr. Henderson's statement, was examined thereon and supplied additional information.

The examination of Mr. Anderson being concluded, the Vice Chairman thanked him and he was permitted to retire.

Mr. Henderson then reviewed paragraphs 98 to 106 inclusive of his 1963 Report, and was examined thereon.

The questioning of Mr. Henderson still continuing, at 11.15 a.m., the Committee adjourned until 9.30 a.m. on Thursday, October 29, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, October 27, 1964.

The VICE CHAIRMAN: Gentlemen, we have a quorum. As I know you are all busy I will ask Mr. Henderson to make a comment on paragraph 107 of the 1962 report, which is the paragraph under study at the present time. It is the same subject as paragraph 92 of the 1963 report, and that is why it was held until this time.

107. *Awards under the Pension Act.* Paragraph 72 of the 1960 report referred to (1) the audit difficulty in determining whether or not certain payments made under the Pension Act, particularly those in respect of discretionary and compassionate awards, conformed to the authorizing provisions, (2) certain administrative practices which it was thought warranted parliamentary attention, and (3) apparent inconsistencies in the act.

The standing committee on public accounts after studying these comments recommended in its fifth report, 1961 (paragraph 62):

- (a) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority;
- (b) that in determining the amount of pension to be awarded dependent parents, the commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;
- (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian Pension Commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38).

After considering these recommendations the Chairman of the Pension Commission advised the audit office concerning recommendation (a) above, that when the commission rules there is an overpayment this is made a matter of record in the accounts and, if uncollectable, the amount is deleted therefrom only with appropriate statutory authority. However, no action has been taken to record and collect overpayments in the type of case referred to in the 1960 report (paragraph 72) as follows:

Since the amount awarded to an applicant in a dependent condition is based upon the additional income he requires to maintain himself, it follows that if the applicant had failed to disclose income, this would result in an overpayment. However, in a number of instances in which undisclosed income was noted and drawn to the attention of the commission, the pension was simply adjusted currently and no overpayment was considered as having occurred.

With respect to recommendation (b), the pertinent section of the act (section 38(6)) was amended in 1961 to provide that the commission might deem any children residing with the "dependent parent" to be

contributing to his or her support not less than ten dollars a month, but the commission feels that there is no obligation for them to take into account the ability of other children to assist and no cases were observed where this was done.

Concerning recommendation (c), the commission reports that it has carefully considered the legality of cases where one death results in more than one pension and is of the opinion that such payments are legal and in accord with the act. It pointed out that the present section 40 was contained in the original act of 1919 and has continued unchanged since then although certain other sections, such as 38(2), were inserted to make provision for classes which were otherwise excluded. The commission is of the opinion that, as the act provides definite authority for these pensions, the general directions of section 40 could not be considered to fetter sections 26, 37 or 38. It would seem that consideration should be given to amending the legislation with a view to eliminating these inconsistencies.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, we have the Chairman of the Canadian Pension Commission, Mr. Anderson, with us this morning. It is the intention of the committee, I believe, to examine the two paragraphs which the chairman has mentioned. Because of the technical and somewhat involved character of the comments, I committed my opening remarks to paper, and I believe that some of the members have it. If it is your wish I thought perhaps I might just run through it, thereby enabling you to mark those sections on which you would like to make comments. Would that be agreeable?

The VICE CHAIRMAN: It is a good idea, go ahead.

Mr. HENDERSON: The Canadian Pension Commission is the successor body to the board of pension commissioners originally established in 1916 to deal solely with war pensions. In addition to administering the Pension Act concerning disability or death incurred on or attributable to military service with the Canadian forces since the commencement of world war I, the commission among other duties also administers the Civilian War Pensions and Allowances Act, parts I to X, covering groups specially engaged during world war II, including merchant seamen, auxiliary services personnel, firefighters who served in the United Kingdom, special constables with the R.C.M.P., overseas welfare workers and the like. The commission, with headquarters in the veterans affairs building, has personnel in Department of Veterans Affairs district offices in the principal cities across Canada and in London, England. Its staff establishment at March 31, 1963 was 380 employees of which it had 352 on strength at that date.

The commission has full and unrestricted power and authority and exclusive jurisdiction under the Pension Act to deal with and adjudicate upon all questions relating to the award, increase, decrease, suspension or cancellation of any pension under the act. In addition, section 5 of the act empowers the commission to "determine any question of interpretation of this act and the decision of the commission on any such question is final".

Before explaining the reasons underlying our comments on the application of this legislation, may I say that we in the audit office have a very real recognition of the problems faced by the commission in its administration of the Pension Act as well as the importance of its decisions to pensioners whose livelihood depends so heavily today on receipt of the awards. Nevertheless, in the discharge of my statutory responsibility, it is my duty to bring to the attention of the house any cases where, in my opinion, doubt exists as to whether legislation on the statute books is being applied in accordance with parliament's intent.

In my 1960 report attention was drawn to cases where, whenever instances of undisclosed income of an applicant were noted and drawn to the attention of the commission, the pension was simply adjusted currently and no overpayment was considered as having occurred. We also referred to difficulties encountered in our audit work in determining whether or not payments made under the Pension Act, particularly those in respect of discretionary and compassionate awards, conformed to the provisions of the Pension Act, and cited the following, among others, by way of illustration:

1. Pension awards were being made to applicants on the basis of their being in a "dependent condition" in instances where they were holding cash, securities and other assets in amounts which would have precluded them from receiving assistance under other legislation involving means tests, simply because no mention is made in the act of the treatment to be given when the applicant has assets.
2. Pension awards were also being made to dependent parents on the basis of an assignment of pay, often of small amount, made by a son now deceased, without taking into account the ability of surviving children to contribute to the parents' support, it simply being assumed that had the soldier survived, he alone would have borne the burden of support.
3. Although subsection (2) of section 40 appears to contemplate that a pension in respect of death of one member of the forces be limited to a single class of recipient such as a widow, children or parents, other sections of the act provide for payments in stated amounts to these classes and so death can result in payments being made concurrently to a widow (section 37), children (section 26) and parents (section 38).
4. Subsection (7) of section 38 of the act provides that the pension of a widowed mother shall not be reduced on account of her earnings from personal employment and, on the strength of this, pensions awarded to widowed mothers under section 38(3), which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, were being continued in payment even though they have been able to undertake full-time employment.
5. Section 25 empowers the commission to "grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious, but in which the commission has decided that the applicant is otherwise unqualified to receive such an award or supplementary award under this act". For many years, outstanding war service was the dominant factor in making compassionate awards but in recent years awards appear to have been made on a "well-deserving" basis without necessarily any military connotation and a number of cases were observed where additional pensions were paid in respect of wives whose marital status was not recognized under Canadian law.

In 1961 the public accounts committee, after studying these comments with the deputy chairman of the commission in attendance, made the following recommendations to the house in its fifth report 1961 (paragraph 62):

- (a) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority;
- (b) that in determining the amount of pension to be awarded dependent parents, the commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;

- (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian Pension Commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38).

After considering these recommendations the Chairman of the Pension Commission advised the audit office on February 7, 1962, concerning the setting up of overpayments, that when the commission rules there is an overpayment this is made a matter of record in the accounts; but in the type of case referred to in our 1960 report involving undisclosed income the commission did not consider overpayments had occurred and therefore did not record any. However, overpayments in current cases of this type are now being recorded.

With respect to our comment (1) concerning liquid assets, we now note that persons with cash and securities in excess of \$5,000 are no longer considered as being in a dependent condition.

With respect to the recommendation regarding dependent parents (2), the chairman has pointed out that the act was amended in 1961 to provide that the commission might deem any children residing with the "dependent parent" to be contributing to his or her support not less than \$10 a month. He stated that the commission feels, however, that there is no obligation for them to take into account the ability of other children of the "dependent parent" to assist.

Concerning (3) the cases where one death results in more than one pension being paid concurrently, the chairman reported that the commission had carefully considered the legality of these cases and is of the opinion that such payments are legal and in accord with the act. I have not obtained independent legal opinion yet on this point.

No action was taken or views expressed on (4) or (5). Concerning the latter dealing with section 25, I should point out that when the act was amended in 1961 the particular group cited as an example was made eligible for pension as of right so this type of case is no longer of concern. What is still of concern is the interpretation of "specially meritorious" which has changed drastically from what it was when this section was first inserted in the act and for many years thereafter. As stated in my note, "specially meritorious" was then interpreted as relating to war or military service and without such service awards were not made. Presently many awards appear to be made on the basis that the case is "well deserving" on a generally compassionate or social welfare basis and I am not sure that this is parliament's intent. Strictly speaking the commission's power to make awards in such cases is not questioned because section 25 makes no reference to military service at all, let alone a requirement of specially meritorious service, but in view of the change in interpretation by the commission over the years it is thought the matter would be of interest to the members.

In my 1963 report we have drawn attention to two more cases which further illustrate the inconsistencies arising under this legislation. The first case related to a mother for whom a dependent parent award of \$50 monthly had been approved despite the fact that she had recently sold her home and turned over to her son-in-law \$19,500 as an interest-free loan with no repayment terms set forth. The second case related to a "widowed mother" who was awarded a dependent parent pension, which on her remarriage was discontinued. She was widowed 13 years later but was prohibited under the act from obtaining a reinstatement of her pension because the death of her husband did not occur within five years of the date of remarriage. She had

lost two sons in the services and was advised that she was now entitled to apply for pension in respect of the second son despite the fact that section 40(1) provides that no person shall be awarded more than one pension in respect of death. An award was made and although the recipient subsequently returned to employment, the award continues in effect at the rate of \$100 monthly.

In view of the recommendations made by the committee in 1961 and the type of problems mentioned which we continue to encounter in the course of our audit work, it would assist us—and, I am sure, the members of the commission—if we could learn whether or not the decisions taken appear to you to be in accord with the intent of parliament.

That, Mr. Chairman, is the basis of the comments that I have to make at this time, drawing on our experience in our audit work of the administration of the Canadian Pension Commission. Perhaps Mr. Anderson would like to speak on this.

The VICE CHAIRMAN: Yes, I was wondering whether it would not be in order to hear Mr. Anderson speak on this report of the Auditor General.

Mr. T. D. ANDERSON (*Chairman, Canadian Pension Commission*): Mr. Chairman and gentlemen, I think first of all I would like to make a general comment with regard to the attitude of the commission generally in respect of the type of case which is referred to in this particular instance. As you know the commission is given very broad discretionary powers to deal with claims, particularly under section 38 of the legislation. From our experience in attending as witnesses before the standing committee on veterans affairs we have become quite convinced that the government is anxious that we shall interpret in the broadest and most generous terms those sections in which we have this power of discretion. In a very brief way this sums up the attitude the commission has toward this particular type of claim. As I say, we are satisfied we are interpreting the legislation and making grants of this type in the manner required by parliament; that is, that we are doing what members of parliament would wish us to do under the terms of this legislation.

With respect to the special items, I would like to deal with these but not necessarily in the order in which Mr. Henderson has presented them to you. I have made a few brief notes on them here and I would like to point out some of the problems with which we are faced and some of the reasons for arriving at the decision at which we do arrive.

First, if I may, I should like to refer to the question of overpayments in cases where such have occurred. As Mr. Henderson indicates, where these overpayments do occur we now set them up and they are referred for disposal to the proper statutory authority. There may be the odd exception, but in any case my colleagues have instructions to make certain, in cases where overpayments do occur, that care is taken to set them up and refer them to the proper statutory authority for final disposal.

The next item to which I would like to refer is the question of payment of pension to a dependant parent, and the relation of that payment to any asset the dependant parent may have. In the first place, as Mr. Henderson pointed out in his report, we now have established a ceiling on the total assets which any individual dependant parent may have beyond which we will not pay a dependant parent pension. I think it should be pointed out that section 38 of the act provides that where a dependant parent is found to be in a dependant condition and where, in the opinion of the commission, that parent would have been taken care of by the deceased son or daughter, as the case may be, then a pension may be paid in an amount which will provide maintenance for the dependant parent.

In the first instance the parent must have a home in which to live, therefore, we exempt the value of the home from the assets because if she did not

have the home we would have to pay an amount which would provide for rentals. So, because we think this is a fair and equitable manner in which to deal with this particular problem, we grant an exemption on the value of the home.

In respect of the specific case to which reference is made here where the dependant parent sold the home and turned over the money to her son to buy a home, this case was dealt with in this manner because we considered the mother not only had a home but also her board in this home which she had, in effect, helped to purchase for her son. Had she had to live in rented accommodation or in her own home which she sold, the amount we would have had to pay would have been \$103 per month under section 38 of the act, because we would have had to pay for her board, taxes on her house, water rates, and so on. In effect, what happened, as a result of her selling her home and investing the money in her son's home, was that the actual amount we were required to pay to her was reduced to \$50 per month. Therefore, we look upon this as being a saving rather than an additional expense. I would go further and point out that this woman could have taken the \$19,000, had she so wished, and taken a trip around the world or she could have invested it in the stock market and lost all of it; having done so, she then would have been in a dependant condition and the commission could not avoid coming to the conclusion that the son would have maintained her, because he was during his period of service assigning to her quite a substantial amount of his pay. So, by and large, we consider this to be a very legitimate type of case and we feel, under the circumstances that this lady, in doing what she did, not only saved the country money but showed very good sense compared to what a lot of other people might have done with this money had they been given the same opportunity.

Mr. FORBES: Mr. Chairman, Mr. Anderson says that part of the duties of the commission is to save the government money. This is not my interpretation of the function of the commission. I understood its duties were to see that justice is done equitably to the dependants of soldiers.

Mr. ANDERSON: That is correct; these are the basic responsibilities.

Mr. FORBES: What business is it of yours whether the total assets of a dependant are \$5,000 or \$50,000 if the dependant is entitled to a pension as a result of a soldier's service; it should be paid to her or his dependants.

Mr. ANDERSON: I think we should clear this up. That dependant is not entitled to a pension because of the man's service; she is entitled to a pension only if in the opinion of the commission this soldier would have maintained her had he remained alive and only if she is in a dependant position. These are the two main requirements.

Mr. WINCH: Mr. Chairman, with all respect—

The VICE CHAIRMAN: Might we allow Mr. Anderson to finish?

Mr. WINCH: Yes. It was my understanding we were going to have complete statements and the questioning afterwards.

The VICE CHAIRMAN: That is the general idea. I think we will permit Mr. Anderson to finish and have the questioning afterwards.

Mr. ANDERSON: With regard to the matter of the dependant mother who lost two sons, this was considered at a general meeting of the commission and, for what we considered to be a number of very good reasons, it was agreed that where a mother lost two sons she should receive very special consideration. I would, again, call your attention to the fact that where in our opinion the deceased soldier would have maintained the parent had he been alive, this must be the basis on which we will decide whether a pension shall be paid. In this case, the widow was in receipt of a dependant parent's pension because of the death of her first son and she had met all the necessary require-

ments. She remarried and some 13 years later her husband died at which time she again fell into a dependant condition. I think it is reasonable to assume that the first son who would have maintained her prior to her marriage would have also maintained her after her marriage if and when she fell into a dependant condition again. However, we are barred from reinstating her under a special section of the act which prohibits it. There was however a second son, and incidentally this son also had made a contribution to her during the period of his service, and there was no question but that he would have maintained her had he been alive. Here was a woman who was in the position of having lost a second son who unquestionably would have maintained her and we therefore put her on pension on the basis that this son would have maintained her had he lived.

There is just one more point I would like to make before I bring my comments to a conclusion. There has been a suggestion that the commission should consider the ability of the other children to maintain this dependant parent; that is, the children other than the one who lost his life in the service. In the first place, we are charged with the responsibility of deciding whether or not the widow is in a dependant condition, and secondly, whether or not the deceased son or daughter would have supported the widow had she or he lived.

There is nothing in the act which requires us to consider whether or not the other children would or should support her. There is no section of the act that gives us authority to enforce such support; and there is no legislation anywhere, as far as I know, which would enforce the other children to maintain the parent. We are therefore faced with a situation in which the widow is in a dependant condition and she will remain in a dependant condition unless we consider that this son would have supported her and, therefore, pay a pension. I do not understand how we can do other than pay a pension in such circumstances.

That is all I want to say to conclude my statement, Mr. Chairman, but I would be glad to attempt to answer any questions which any member might like to put to me.

The CHAIRMAN: I omitted to say that Mr. Anderson is the chairman of the commission, as I am sure you all know.

Mr. Winch.

Mr. WINCH: I would like to direct a question to Mr. Henderson. I do not think it has happened very often over the years that Mr. Henderson has completely confused me, but I want to admit that he has succeeded in doing so this morning.

I would like to ask Mr. Henderson how he coincides the second paragraph on page one with the third paragraph on page one. In the second paragraph on page one Mr. Henderson makes the definite statement that:

The commission has full and unrestricted power and authority and exclusive jurisdiction under the Pension Act to deal with and adjudicate upon all questions relating to the award. . . . In addition, section 5 of the act empowers the commission to "determine any question of interpretation of this act and the decision of the commission on any such question is final".

In the succeeding paragraph Mr. Henderson says:

Nevertheless, in the discharge of my statutory responsibility, it is my duty to bring to the attention of the house any cases where, in my opinion, doubt exists as to whether legislation on the statute books is being applied in accordance with parliament's intent.

In view of Mr. Henderson's very definite contention that the commission has full and unrestricted power and authority and exclusive jurisdiction in determining the interpretation of the act, I think Mr. Henderson will under-

stand why I am confused to know why he then expresses a doubt as to the intent of parliament and the interpretation. At the moment I cannot put the two together. Would Mr. Henderson please expatiate on that?

Mr. HENDERSON: Mr. Chairman, may I first of all answer Mr. Winch by saying that I have not submitted any of the questions we have raised here for independent legal opinion. However, in regard to my reference to section 5 of the act in the second paragraph, if you will look at it in the act you will see that it is prefaced by the words "subject to the provisions of this act" the commission has full and unrestricted power and authority, and so on.

It has been the practice of my office in examining the transactions of an operation such as the Canadian Pension Commission to see whether or not the administration of that act conforms to the provisions of the legislation. That is one of the duties that I consider I have to perform.

I think Mr. Winch would agree that if I were to accept the proposition that they have exclusive, full and unrestricted power, there would be no point in my even doing an audit of the transactions flowing from the administration of this act. I do not think that is parliament's intention. If that were the intention, then I should not attempt to bring these cases before you.

There is no question, as Mr. Anderson himself has shown you, that he and his associates on the commission are not seeking to bring the best justice, in the generally accepted sense of the word, to all the cases which come before them. The points that I am raising are those cases where it seems to us anomalies exist or in which some departure is developing that is away from the intention of parliament when it enacted this legislation.

I am quite prepared to admit to you that our interpretation may be too rigid; it could be that the members of the committee feel that the Canadian Pensions Commission should be given this full and unrestricted power in every sense of the word, but I consider, as I say, that it is my duty to bring to your attention any cases wherein I may entertain doubts.

Do you not agree with that, Mr. Winch?

Mr. WINCH: I am not quite clear at the moment.

Mr. HARKNESS: Perhaps I could clear up Mr. Winch's difficulty by putting forward the opposite side of the coin.

Individual veterans, members of parliament on their behalf, and veterans' organizations are constantly questioning the interpretation placed by the commission on claims for pensions which are not allowed, as you are well aware. In other words, there is a great deal of questioning of the interpretation which the commission puts on the sections of the act and on their powers from the very opposite point of view—that they in many cases do not give the benefit of the doubt when it should be given, and thus do not award pensions when they should be awarded.

Mr. WINCH: I am not quite certain whether that clarifies the point or not.

I know in the last two months Mr. Anderson, on representations I have made and on review, has decided that persons who had been turned down were entitled to pensions.

Mr. HARKNESS: My whole point is that this power which is given to the commission is constantly questioned, chiefly from the opposite point of view. The question is generally whether or not they are using those powers according to the intent of parliament.

Mr. WINCH: Basically I would just love to get clarification on this.

We have had an explanation from Mr. Henderson. May I ask whether Mr. Anderson has any comment on this phase of the matter—paragraph two and paragraph three.

Just how far do you accept the full, unrestricted power, authority and exclusive jurisdiction?

Mr. ANDERSON: I feel that parliament meant exactly what they said when they inserted section 5 into the act. I think we have just exactly the power that is outlined there. On the other hand, I am not certain, frankly, of the relationship of the office of the Auditor General to our act and our operations, but I think it has been accepted through the years that the Auditor General is expected to comment on any expenses in any department or any board that in his opinion may be doubtful. This is a matter on which, as has been pointed out, there would appear to be some conflict.

Mr. WINCH: May I bring it to a head, then, by giving an example?

Let us turn to page two, paragraph five. The Auditor General has mentioned this matter not only on page two but also later on where we have, shall I say, the interpretation of "specially meritorious" and "well deserving". Without going into arguments on those, may I ask Mr. Anderson whether he understands that, because of a power which is outlined in paragraph 2 on page one, he has the authority to interpret "well deserving" in a manner similar to "specially meritorious"?

Mr. ANDERSON: Yes, I frankly think we have that power. However, I would like to call to your attention the exact wording of section 25 of the act in this particular aspect:

The commission may, on special application in that behalf, grant a compassionate pension, allowance or supplementary award in any case—

And I stress the words "in any case".

... that it considers to be specially meritorious.

My interpretation is that it is the case itself that must be specially meritorious and not the man's service.

Mr. WINCH: In other words, it is well deserving and therefore meritorious?

Mr. ANDERSON: Exactly.

Mr. CAMERON (*High Park*): Will you clarify that answer, Mr. Anderson? It seems to me to be slightly ambiguous.

Mr. ANDERSON: The reply I just gave?

Mr. CAMERON (*High Park*): Yes.

Mr. ANDERSON: All I said was that the actual wording that appears in the act is "in any case that it considers to be meritorious". I think the correct interpretation of that is that the case itself must be meritorious and not the service of the individual seeking the pension.

Mr. CAMERON (*High Park*): How do you define "meritorious"? I am sorry to interrupt, but that is a point in which I am very much interested.

Mr. ANDERSON: I think you have made a very good point and I would be happy to explain. Perhaps the best manner in which to do that would be to cite a specific case. I will not use any names but I will cite a case which I think is very much to the point. This is a type of case which is fairly common; we have a number of them.

A soldier during world war II marries an English or European girl. At the end of the war she refuses to return to Canada and she ultimately obtains a divorce in the British courts or in the courts of some European country. So far as Canadian law is concerned, he is not divorced; he is still married and therefore cannot marry again. He ultimately takes up common law union with another woman and there is a family. They live a respectable life and they get along fine. We have used this section of the act to pay an additional pension on behalf of that common law wife.

We considered it to be a meritorious claim because there is no way in which this man can get recourse.

Mr. CAMERON (*High Park*): May I reserve my right to go back to this question later on?

The VICE CHAIRMAN: Yes, indeed.

Mr. WINCH: In view of the reading of the section by Mr. Henderson and the interpretation he has placed on it, may I ask him whether he is basically challenging the pension commission's interpretation of that section, and that the word "meritorious" refers to the case, and if so, does he claim that there is any distinction between the terms "meritorious" and "well deserved"?

Mr. HENDERSON: I think it might be helpful if I could ask Mr. Douglas to answer that question.

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): One of the main purposes of bringing this matter to your attention is that we thought it might be interesting if we drew to your attention the tremendous change in the interpretation of "specially meritorious" over the years by the commission itself. I would like to quote an opinion given by Mr. Justice Hyndman, who was then president of the appeal board, which we came across during our research into this matter. It reads as follows:

There is no doubt that the deceased ex-soldier had a very creditable military career but, unfortunately, it was not of such a nature as would fall within the expression in the section referred to, namely 'specially meritorious'.

It must be remembered that there were about 619,000 enlistments in the Canadian expeditionary forces and, of these, about 425,000 proceeded overseas. Some 60,000 died on service and there are at present about 80,000 disability pensioners. It will thus be seen that there are, allowing for deaths since the war, more than 200,000 ex-soldiers, most of whom saw service in an active theatre of war, and who are receiving no pension. Allowing for slackers and others whose service might not be said to be creditable, there are a very great number whose service was praiseworthy and meritorious. It will thus be seen that, if a loose interpretation of section 21 were permitted, it would almost do away with the necessity of proving a right to pension under section 11 of the act and would lead to universal pensions.

We have had many applications under section 21 in which the facts as to the merits of service and distress of the widow have been on a par with or even more distressful than in this case and, unfortunately, we have had to disallow such claims. This court has held, in connection with many of these cases, that unless there is something outstanding or conspicuous, as compared with the ordinary meritorious service, provisions of the section cannot be applied.

Realizing as I do the extreme financial needs of the applicant in this case, and whilst it would give me much pleasure to be able to accede to her request, nevertheless, in view of the law as interpreted by this court, it is with much regret that I am compelled to say that the application must be REFUSED.

Mr. WINCH: Do I take it from what you have read that because of an interpretation that was made many, many years ago, there is now a wrong interpretation being given; that the section applies to meritorious service, and not necessarily military service?

Mr. DOUGLAS: No, sir, I would say that the reason this was brought to attention was to illustrate the varying interpretation of the words "especially meritorious". At the outset it seemed to be something considered as outstanding in military service. It simply is a matter of drawing this to your attention. Now, there is a much broader interpretation given, and in fact we have noted cases

which one can consider as merely a matter of social welfare, such as when a person is in financial need, and the pension is awarded under this section.

Mr. WINCH: I am glad to note, speaking personally, the progressive thinking of the commission.

Mr. McMILLAN: Section 40, subsection (1) which Mr. Henderson refers to in his last page applies, and no person shall be awarded more than one pension in respect of death. My question is this: Would not the award of the second pension be made beyond the provisions of the act? I am not questioning the need for the second pension, but does it not go beyond the act, if section 40, subsection (1) is read in that way?

Mr. DOUGLAS: This is a very interesting question that we are raising. We do not know. This is one of the questions we want clarified. I might illustrate it in another way, using section 38 of the Pension Act. Under section 38, subsection (3) the individual must be incapacitated by mental or physical infirmity from earning a livelihood. This is a condition. Yet by using section 38, subsection (7), which in effect says that a pension awarded to a mother shall not be reduced on account of her earnings, pensions are being continued under section 38, subsection (3), where the person has returned to full time employment. But to us this seems to be ridiculous. If incapacitation is the one criterion for a person drawing a pension, it seems to me to be very difficult to understand how a pension can be continued when a person is holding down a full time job. These are things which have raised doubts in our minds.

Mr. McMILLAN: Should there not be an amendment made to the act?

Mr. DOUGLAS: This of course is what we have thought might usefully be considered to clarify the situation.

The VICE CHAIRMAN: Now, Mr. McLean.

Mr. FORBES: Is there any appeal from a decision of the board?

Mr. ANDERSON: You mean with respect to a claim under section 38, for a dependant parent?

Mr. FORBES: I mean any claim.

Mr. ANDERSON: Yes, there is.

Mr. FORBES: You say there is an appeal?

Mr. ANDERSON: Yes.

Mr. FORBES: To whom do you appeal?

Mr. ANDERSON: The appeal is made to a special appeal board of the commission, composed of three members.

Mr. FORBES: The late Harry Jones and I had a case before you people and we could not make head or tail out of it. We finally got a French pension, but you held back the Canadian pension and we still think you are wrong.

The VICE CHAIRMAN: If you would give Mr. McLean an opportunity to ask his questions, I feel sure that the matter you are referring to will be covered. I saw Mr. McLean before you spoke.

Mr. FORBES: I thought I asked for your permission and you nodded to go ahead. Are you bilingual and I do not understand?

The VICE CHAIRMAN: Mr. McLean.

Mr. McLEAN (*Charlotte*): The Auditor General says in section 25, dealing with the powers of the commission, that you may have a compassionate pension or a supplementary award which he says must be established on meritorious grounds, and Mr. Anderson has given us a definition of meritorious. I always thought that it was in connection with service in the field or something like that. I did not think it was in connection with married life. I have heard the case given by Mr. Anderson, and now I would like to give my case.

A man served in his teens in the first world war. He comes out of the lines of Passchendaele, where out of 146 men and four officers only 16 men came out. That night he was supposed to have a rest. But he had to go back in that night to help carry out the wounded. Then a howitzer went off near him, knocking out his hearing. He is deaf from then on. He lives a good life, and is an upright citizen. He asks for no pension, but he considers it to be meritorious service. He not only saved a man's life, but also put a machine gun out of action and so on, and he thought it to be meritorious service. He was not mixed up with married life at all. I believe that man's word should be accepted. This happened to him. But he cannot even get a hearing aid, while the man who is mixed up in married life gets a pension. I cannot see any sense to it. All he wants is a small pension so that he can get into a veteran's hospital.

He went to a veteran's hospital under the impression that he could get free service, but he was charged \$75. The provincial government pays the bill for his room, but the surgeon charges him \$75, and the pension commission will not even give him a hearing aid. I know the man and I believe his word. I know that if I made an affidavit in court they would accept my word, but if a veteran comes up and is willing to make an affidavit, the pension commission will not believe him, or anybody else. I think they should accept someone who comes forward and says that this man is of good character and has been of good character, and is leading the life of an upright citizen. I think they should take evidence along this line and not turn the man down.

I cannot accept the definition of "meritorious" which Mr. Anderson has given. I cannot see it at all.

Mr. ANDERSON: In the first instance I would not wish to comment on a claim or a case with which I am not familiar. We often find when we dig into these cases that there are a lot of problems and other matters in connection with them with which we are not familiar at the moment. Therefore, I would not wish to comment on any particular case without knowing more about it than I do about this one.

Also there is some confusion between section 25 and section 13. From what Mr. McLean has said I would assume that this man might be able to apply for a pension under section 13. I do not know if he applied under section 25. But I would judge that he is seeking entitlement to a pension on the grounds of disability, and not on compassionate grounds.

Mr. McLEAN (*Charlotte*): It says "special meritorious service". Do you not look into his service as such?

Mr. ANDERSON: Yes, but if he was not applying for a pension under section 25 we would not deal with it on that basis but, rather, on the basis of whether or not he received a disability during the period of his service.

Mr. McLEAN (*Charlotte*): Well, then, how is the ordinary person to know what to apply under? I am sure I would not know.

Mr. ANDERSON: Well, of course, if he is applying on the basis of a disability he goes to a pension advocate and he would be advised of the correct manner in which to proceed.

Mr. McLEAN (*Charlotte*): Yes, but in my experience one does not get anywhere.

The VICE CHAIRMAN: Would you proceed, Mr. Forbes.

Mr. FORBES: A case I have in mind concerns a Frenchman who came to Canada in 1912. He took up farming. He was a member of the French reservists army. In 1914 he was called back to France and in 1918 he was killed. This man was entitled to two pensions, the French pension and the Canadian pension. His widow later was confined to a mental institution. This case was

taken to the Canadian pension board, which withheld both pensions. However, after two or three years of negotiations by the late Harry Jones and myself we finally succeeded in obtaining for her the French portion of the pension. But, to this day, the Canadian Pension Commission has withheld the Canadian portion because she is confined to a mental institution. In my opinion, the Canadian Pension Commission should not have that authority. This woman was entitled to the pension as a result of her husband's war service and, as such, I think she should be paid that pension through the administrator of mental persons' estates in the province of Manitoba. I know you are well aware of this case, Mr. Anderson, and I think it has been handled very unfairly. I think the commission is given far too much authority.

The VICE CHAIRMAN: Have you a question, Mr. Cameron.

Mr. FORBES: Mr. Anderson has not commented upon my remarks.

The VICE CHAIRMAN: Do you wish to answer Mr. Forbes?

Mr. ANDERSON: Yes, but only to say that under section 18 of the act the commission has authority to administer funds of persons who are in mental institutions, and that is what we have been doing.

Mr. FORBES: But in certain provinces there are officials to administer these pensions on behalf of persons confined to institutions.

Mr. ANDERSON: But in the case of disability or dependants pensions that authority is given to us by our own act.

Mr. CAMERON (*High Park*): But, you have eliminated meritorious service because—

Mr. ANDERSON: If I may interrupt, no, we have not eliminated it. This is a very important factor which we take into consideration when deciding these questions.

Mr. CAMERON (*High Park*): You really have enlarged it then because you said you considered meritorious service to be more or less synonymous with hardship. Let me illustrate what I am trying to get at. Let us take a man who, through no fault of his own, could not get married and had contracted a common law marriage. He made an allowance on that basis. I am using a fictitious case. This man was on active service and whether or not it was through his own fault he was not covered by section 13 (2). This man lost both legs and both arms through special meritorious service. He has undergone a most unfortunate experience and as a result of which he is unable to make a living? What do you do in this case? What is the reasoning of the commission in this respect?

Mr. ANDERSON: In the first place, if the man has any pension entitlement at all, even 5 per cent—

Mr. CAMERON (*High Park*): I am eliminating all reference to a pension entitlement. My case relates to a man who has no entitlement at all under section 13 (2). He is seeking relief under this word "meritorious". He has to qualify under that. This is a case of a man who is suffering extreme hardship.

Mr. ANDERSON: We have not eliminated as such the meritorious service aspect.

Mr. CAMERON (*High Park*): I can understand the meritorious service aspect of it in the case of a man who has given meritorious service and is in a position of hardship; under the act he would not have been entitled to a pension and you would have taken that into consideration when deciding if his hardship deserves relief action under section 25. However, I am interested in the thinking of the commissioners on this ground of hardship. What do you interpret as being a hardship? I gave you an illustration of a man who lost both arms and both legs and who was incapable of making a living. Do you do anything for this man?

Mr. ANDERSON: We would not pay him a pension on that basis only; we would have to consider other factors, such as his service and so on.

Mr. CAMERON (*High Park*): But, why not?

Mr. ANDERSON: Because under the Pension Act we do not consider section 25 to be designed so as to provide that every man who puts on a uniform will be given a pension if something happens to him after his war service is finished. This is not the purpose of the Pension Act.

Mr. HARKNESS: Am I not correct that such a man would come under the provisions of the War Veterans' Allowance Act?

Mr. CAMERON (*High Park*): But here is a man who cannot make a living and yet you do not consider that as meritorious service. It would appear to me that you do not give the word "meritorious" its full grammatical meaning.

Mr. ANDERSON: We do not pay pensions under section 25 on the basis of any one particular aspect of his claim; we have to consider all the aspects, his service disability, his status so far as finances and all other factors.

Mr. CAMERON (*High Park*): I do not see why you have to consider all these other outside things. They may be elements that enter into making a final decision but, in my opinion, the point concerns this hardship. Are meritorious and hardship synonymous? What would you do in the case I illustrated?

Mr. ANDERSON: I would take a look at it under section 25 and decide on the basis of all the aspects of his claim whether or not he is entitled to consideration.

Mr. CAMERON (*High Park*): But let us eliminate all the other aspects. I am referring simply to the hardship in this particular case. He lost both his arms and legs and he cannot make a living. He went overseas to serve his country; he comes back and he is not eligible under section 13 (2), and the only place he can make a claim is under section 25. Again, I am asking why it should not be considered a meritorious case?

Mr. ANDERSON: Of course, we would consider it. But, I could not commit the commission in any case of that type to pay a pension; it has to be decided by the commission.

Mr. CAMERON (*High Park*): I am having difficulty in finding out what the thinking of the commission is in this respect.

Mr. WINCH: In respect of the example given by Mr. Cameron could we ask whether or not you then would consider it under the War Veterans' Allowance Act, as suggested by Mr. Harkness.

Mr. ANDERSON: He might be entitled to that, in which case the question of pension under section 25 probably would not arise. If he had service only in Canada, with no pension entitlement, he would not of course be eligible under the War Veterans' Allowance Act.

Mr. CAMERON (*High Park*): Although the War Veterans' Allowance Act might help him it would not begin to compensate him for the hardship he has suffered under the illustration I have given. I am asking for a simple answer in respect of this man who has suffered to the extent that he has. As I say, I have mentioned a purely fictitious case. Why would it not be considered a hardship and, therefore, synonymous with a meritorious claim, and why should he not have been awarded a pension which he would have received if he had lost both arms and both legs in battle?

Mr. ANDERSON: It would be very seriously considered, yes.

Mr. CAMERON (*High Park*): But I cannot get an answer yes or no.

Mr. ANDERSON: You want me to say that I would give it to him.

Mr. CAMERON (*High Park*): Yes.

Mr. ANDERSON: I cannot say that because it is not within my prerogative to say so. I am not the commission; I am only the chairman and one member of the commission.

The VICE CHAIRMAN: Have you a question now, Mr. Harkness?

Mr. HARKNESS: I had a couple of questions to put. In respect of overpayments you stated you are now entering these up. Do you then attempt to collect these overpayments out of the allowances which have been given?

Mr. ANDERSON: In some cases we do, sir, if it is not going to work a hardship on the individual.

Mr. HARKNESS: That is my very point; if it is going to work a hardship on the individual you then do not subtract the \$20 or whatever it is a month?

Mr. ANDERSON: That is right; we do not.

The VICE CHAIRMAN: Then how do you collect this?

Mr. ANDERSON: It is referred to the proper statutory authorities and they proceed with it in whatever way they see fit.

Mr. HARKNESS: It is recovered in some cases from the veterans' estates, I suppose, and if not from there it is written off?

Mr. ANDERSON: Yes.

Mr. HARKNESS: Although, you do enter it as an overpayment you do not immediately begin to subtract the amount in question, no matter what the circumstances are?

Mr. ANDERSON: No.

Mr. HARKNESS: My other question relates to the ceiling on the assets of a dependant parent. Is there any limit on the value of a house as there is in the case of the war veterans' allowances people?

Mr. ANDERSON: No. We have not placed any specific limit on the value of the house but it is one of the factors we consider. We might try to encourage the individual, if he was living in an overly expensive house, to work out a means by which the house could be sold or live in a less costly establishment because in many cases the cost of operating a big expensive house is more than the act permits us to pay under our ceiling. But, we have no definite limit in this respect.

Mr. HARKNESS: In other words, you do not apply a limit as you do in the case of the War Veterans' Allowance Act?

Mr. ANDERSON: No.

The VICE CHAIRMAN: I know it is not normal for the Chairman to put questions and that is why I would rather be sitting on the other side of this table. But, you do find it quite in order for someone to transfer \$19,800 in assets to a son-in-law at no interest and then pay an additional pension.

Mr. ANDERSON: Well, she could have done many, many other things with it.

The VICE CHAIRMAN: I am not questioning that. I suspect there are a lot of things she could have done with it.

Mr. ANDERSON: She is receiving no income from it, as a result of which, she is in a dependant position.

Mr. HARKNESS: But, in these cases you do not pay the whole pension; you pay only a partial pension?

Mr. ANDERSON: Yes, that is right, because her son is providing her with room and board.

The VICE CHAIRMAN: Are you saying that the sons who die overseas are the sole support of their mothers?

Mr. ANDERSON: Not invariably, but unless there is evidence to the contrary we take that to be the case.

The VICE CHAIRMAN: Could you tell me how many sons who did not get killed overseas are supporting their mothers? Do you know?

Mr. ANDERSON: I do not know.

The VICE CHAIRMAN: Are there any other questions in this respect?

Mr. FORBES: Mr. Chairman, I would like to say one thing. I think there should be a change on the basis on which you decide a pension. The day of children assisting their parents is long past, and you may as well reconcile yourself to that fact. If these chaps are entitled to a pension as a result of war service, give it to them.

Now, by putting a ceiling on their property or a net worth statement you have created the same conditions that are referred to in this clause. This woman wants to draw a pension so she transfers her property to her son. I would say "forget about it". If they are eligible for a pension as a result of their war service, pay it to them and do not get people in the position in which you got this lady here because only a short time may pass before the son-in-law forgets about helping her. If they are a war charge, let us pay out the charge.

Mr. DANFORTH: Mr. Chairman, I would like to ask Mr. Henderson one or two questions strictly regarding the mechanics. You made the following statement here:

Nevertheless, in the discharge of my statutory responsibility, it is my duty to bring to the attention of the house any cases where, in my opinion, doubt exists as to whether legislation on the statute books is being applied in accordance with parliament's intent.

My question, Mr. Henderson, is this: You or your department in the discharge of its duty would not go into every pension case because there are thousands and thousands of them. My interest is whether you just pick cases at random or does the commission refer pensions of a particular type to your attention? What are the mechanics by which you go into these pensions?

Mr. HENDERSON: As you know, ours is a test audit. We select the cases. Perhaps it would help if Mr. Douglas could explain this to you because he is in charge of carrying it out.

Mr. DOUGLAS: Generally speaking, we do it on a sampling basis. For example, we will sometimes limit tests to various sections. We might do a test of section 25 cases, or a test of section 38, then a test of the war disability pensions under section 13. It is a matter of a test examination.

Mr. DANFORTH: Then, there could be other fields in which there might be a conflict of opinion between the two departments which could be brought out from the testing other than the prime examples shown here?

Mr. DOUGLAS: This is quite possible. These are simply examples.

Mr. CARDIFF: Mr. Chairman, I refrained from asking this question because of the fact that I did not have all the particulars with me. I expect them in the mail right now. A gentleman came to me on Saturday. I was home. He came with his wife. He is now 68 years old and he is a veteran of the first world war. There are very few of them left. He was getting a pension for quite some time. He was in active service and was wounded at different times. He had a full time job while he was able to do it, but then he got to the position where he was not able to continue his work. They cut his pension when he started working and they would not give it back to him because his wife had money. I think it is absolutely wrong. He is entitled to a pension because of his war service. They cut the pension off because he was making enough money to keep himself, and his wife had money. Because they had money, they would

not reinstate him. He is 68 years old and she is 70, or almost that age. They told her that she had to spend her money if he was to get a pension. She has spent it. They drive a car, and they were told that they should not have a car. Their son had given them a car, they did not buy it. The same with a television set. They were told they could not have a television set because that was something special. Somebody gave them a television set. This man is entitled to a pension because of his war service, and yet they cut it off because he was making enough money to make a living. I am going to receive all the information within a day or two. I told them to go home and put all this on paper and send it to me in a letter. The man agreed to do it. I have not received it yet, but I will have it tomorrow, I expect. I intend to fight for him.

Mr. HENDERSON: May I mention that at the meeting on Thursday Mr. Cromb, the chairman of the war veterans' allowance board will be attending the committee. I am wondering whether Mr. Anderson would not agree that perhaps this case is more of a war veterans' allowance case than yours, Mr. Anderson?

Mr. ANDERSON: All I would say is that if this man was in receipt of a disability pension and was cut off because he was working, somebody made a bad blunder somewhere. I would be glad to correct that blunder if you refer it to me.

Mr. CARDIFF: He went to London, and he went to different places. They all turned him down. I think it is ridiculous. I think it is plain ridiculous for the pension board to turn any soldier down who served in the first war. There are only a few of them left and for God's sake give them enough to live on until they die.

Mr. ANDERSON: There is no authority in our legislation to either reduce or cut off a man's disability pension under such circumstances. I am not talking about the war veterans' allowance or the pension under section 33; I am talking about the disability pension. We cannot cut off the disability pension because of a man obtaining employment.

Mr. CARDIFF: It may be under the war veterans' allowance.

Mr. ANDERSON: This would have to be dealt with by Mr. Cromb. This is not my responsibility.

The VICE CHAIRMAN: Are there any further questions? If there are no further questions we thank you, Mr. Anderson, for having appeared before the committee. I think you enlightened us on many questions concerning pensions.

Mr. HENDERSON: Mr. Chairman, may I ask Mr. Winch if he still entertains any reservations regarding my responsibility in carrying out a test audit of the transactions of this commission, in the light of his earlier question?

Mr. WINCH: I would say you have to carry on an audit but I am still not completely clear as to whether your authority goes as far as in the interpretation you have given. I think you have to watch where the money is being spent but I am still not completely clear on that.

The VICE CHAIRMAN: I do not think I should give my opinion on that but if the Auditor General is not going to look over some of these cases, then I would say this department should be eliminated from his jurisdiction.

I think we will ask Mr. Henderson to carry on. We were considering paragraph 98 in the 1963 report. If it meets with the approval of the members of this committee we will sit until 11:15.

Mr. HENDERSON: I think, Mr. Chairman, that at our last meeting we actually had just called paragraph 98, the non-productive payments. I do not know whether the members have any questions regarding them. There were six non-productive payments left over. I can refer to them very briefly. I do not know whether that would be your wish. Have they been studied?

The VICE CHAIRMAN: Have we not completed paragraph 98?

Mr. HENDERSON: You dealt with the majority of the non-productive payments. The ones that were left were a couple from the Department of Justice and also relating to the department of penitentiaries and the Department of Citizenship and Immigration.

The VICE CHAIRMAN: If the committee has any questions on paragraph 98 Mr. Henderson will answer them now.

Mr. HENDERSON: This is paragraph 98 in the 1963 report on page 65.

Mr. HARKNESS: Which are the ones which have not been dealt with?

Mr. HENDERSON: There were half a dozen left over. I can refer to them briefly. You have dealt with the non-productive payments in your report to the house; you might therefore not care to spend any more time on the list. For example, on page 148, in appendix 1, there was, No. 1, the abandonment of shared-cost school construction project in Southampton, Ontario. There is also No. 3 and No. 4 having to do with penitentiary locations which were discarded. The sum of \$10,000 was spent on the development of a water supply at the Belair forest reserve, a correctional work camp, that was not proceeded with.

Mr. Chairman, perhaps we could push ahead if there are no further questions.

Mr. SOUTHAM: They can be included under the recommendations which the committee might make.

Mr. HENDERSON: You have already delivered an opinion on them.

The VICE CHAIRMAN: If it meets with the committee's approval, we will go on to paragraph 99, summary of assets and liabilities.

SUMMARY OF ASSETS AND LIABILITIES

99. The statement of assets and liabilities as at March 31, 1963, with comparable figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the public accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as Exhibit 2 to this report.

Mr. HENDERSON: In paragraph 99 we move on to a summary of assets and liabilities as of March 31, 1963.

We then move on to paragraph 100 on page 66 where it gives the table listing the assets at that date by the main headings of the statements.

Assets

100. The following table lists the assets at March 31, 1963, by main headings in the statement of assets and liabilities, in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1961	March 31, 1962	March 31, 1963
Current assets	\$ 784,348,000	\$ 1,246,016,000	\$ 820,217,000
Advances to the Exchange Fund Account	2,024,000,000	1,793,000,000	2,736,000,000
Sinking fund and other invest- ments held for retirement of un- matured debt ..	17,018,000	19,432,000	22,312,000

	March 31, 1961	March 31, 1962	March 31, 1963
Loans to and investments in Crown corporations	3,614,188,000	3,985,330,000	4,468,119,000
Loans to national governments ...	1,378,196,000	1,339,797,000	1,210,777,000
Other loans and investments	1,035,651,000	993,863,000	1,110,655,000
Securities held in trust	30,043,000	25,837,000	26,016,000
Deferred charges .	733,702,000	727,826,000	936,644,000
Suspense accounts .	136,000	136,000	136,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
Total Assets .	9,712,106,000	10,226,061,000	11,425,754,000
Less—Reserve for losses on realization of assets .	546,384,000	546,384,000	546,384,000
Net Assets ...\$	\$ 9,165,722,000	\$ 9,679,677,000	\$ 10,879,370,000

Next we go to paragraph 101 in which we break down the first of those figures, the current assets figures which show the cash, and the departmental working capital advances and revolving funds.

101. *Current assets.* The balances included under this heading at March 31, 1963, with the comparable balances at the close of the two previous years, were:

	March 31, 1961	March 31, 1962	March 31, 1963
Cash	\$ 486,760,000	\$ 895,321,000	\$ 511,347,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization account	90,198,000	132,783,000	139,043,000
Defence production revolving fund	15,651,000	27,297,000	39,068,000
Other	65,234,000	63,300,000	65,156,000
	171,083,000	223,380,000	243,267,000
Securities held for the securities investment account	101,454,000	94,608,000	33,480,000
Other current assets	25,051,000	32,707,000	32,177,000
\$	784,348,000	\$ 1,246,016,000	\$ 820,271,000

The \$139,043,000 balance of the agricultural commodities stabilization account at March 31, 1963 was \$6,260,000 greater than the corresponding amount at the end of the preceding year, the difference being more than accounted for by the increase of \$16,861,000 in the inventory of butter held by the agricultural stabilization board offset, in part, by a decrease of \$9,311,000 in the inventory of pork products.

The increase of \$11,771,000 in the defence production revolving fund was mainly accounted for by progress payments of \$8,136,000 made to various suppliers in connection with the production of CF-104G aircraft to be supplied to European nations under the mutual aid program.

The decrease of \$61,128,000 in the balance of the securities investment account was accounted for by (a) a decrease of \$50,458,000 in the temporary holding of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act, and (b) the sale of \$10,670,000 of the securities received by the Minister of Finance on February 21, 1962 on assignment from the Canadian Arsenals Limited pension fund, with the approval of the governor in council. As mentioned in last year's report (paragraph 118) the assignment arose upon the transfer to the public service superannuation account of the liability for the payment of pensions to pensioners and former contributors to the fund. Under the terms of this transfer, the Minister of Finance credited the public service superannuation account with the proceeds derived from the securities sold during the year. At March 31, 1963 there remained \$1,488,000 of the securities to be sold.

At the top of page 67 there are some comments regarding the items that are included in that tabulation. You will notice there that the decrease of \$61,128,000 in the balance of the securities investment account was accounted for by a decrease of \$50,458,000 in the temporary holding of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act, and also the sale of \$10,670,000 of the securities received by the Minister of Finance on assignment from the Canadian Arsenals Limited pension fund which was taken over and merged with the public service superannuation account.

Paragraph 102 has a comment regarding the advances to the exchange fund account.

102. *Advances to the Exchange Fund Account.* This account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the minister from time to time within the maximum (\$3,000,000,000 at March 31, 1963) authorized by the governor in council under section 23 of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The advances to the account at each year-end are included in the statement of assets and liabilities at their total, less repayments, with a parenthetical note giving the market value of the investments from the advances. Thus at March 31, 1963 the amount shown for "advances to the Exchange fund account" was \$2,736,000,000, being the total of the advances less repayments, whereas the market value of investments from advances was \$2,757,046,000, indicating an unrecorded surplus of \$21,046,000. By comparison, at the close of the two previous years there were unrecorded deficiencies of \$33,310,000 at March 31, 1962 and \$154,042,000 at March 31, 1961.

A summary of the transactions in the account for its financial year ended December 31, 1962 is included in paragraph 175 of this report.

We have already dealt with that when Mr. Bryce was before the committee. You considered at that time the report that the minister made.

Paragraph 103 deals with a small item covering investments held for the sinking fund maintained with respect to Newfoundland loans which were assumed under the terms of union.

103. *Sinking fund and other investments held for retirement of un-matured debt.* This item represents the investments held for the sinking fund maintained with respect to Newfoundland loans which were assumed under the terms of union.

On the next page paragraph 104 gives the listing of the loans to and investments in crown corporations.

104. *Loans to and investments in crown corporations.* The following table lists these loans and investments at March 31, 1963, with the comparable balances at the close of the two previous years:

	March 31, 1961	March 31, 1962	March 31, 1963
Central Mortgage and Housing Corporation .	\$ 1,510,711,000	\$ 1,701,029,000	\$ 1,802,806,000
Canadian National Railways	1,092,590,000	1,165,039,000	1,439,328,000
The St. Lawrence Seaway Authority	339,927,000	368,216,000	390,888,000
Farm Credit Corporation	155,754,000	209,971,000	268,968,000
National Harbours Board	172,770,000	178,743,000	192,579,000
Northern Ontario Pipe Line Crown Corporation	123,750,000	119,035,000	110,555,000
Atomic Energy of Canada Limited	60,930,000	65,827,000	53,258,000
Canadian Overseas Telecommunication Corporation	31,686,000	37,918,000	49,321,000
National Capital Commission	25,232,000	31,478,000	40,906,000
Export Credits Insurance Corporation	10,000,000	15,288,000	34,955,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Northern Canada Power Commission	26,463,000	26,158,000	19,003,000
Other balances	34,375,000	36,628,000	35,552,000
	<u>\$ 3,614,188,000</u>	<u>\$ 3,985,330,000</u>	<u>\$ 4,468,119,000</u>

The increase of \$102 million in the amount shown for Central Mortgage and Housing Corporation during the year ended March 31, 1963 was largely accounted for by advances of \$137 million, less repayments of \$69 million, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, R.S., c. 46, together with advances of \$45 million, less repayments of \$7 million, in respect of federal-provincial projects.

The increase of \$274 million in the amount shown for Canadian National Railways was accounted for by advances of \$303 million under Canadian National Railways Financing and Guarantee Acts and by further investment of \$19 million in 4% preferred stock in the company pursuant to section 6 of the Canadian National Railways Capital Revision Act, R.S., c. 311, less a repayment of \$3 million by Trans-Canada Air Lines, and reductions of \$41 million and \$4 million as a result of charging to expenditure the temporary loans made to the Canadian National Railways and its subsidiaries, Trans-Canada Air Lines, to meet their 1962 "income deficits".

Further loans of \$7 million to the St. Lawrence seaway authority during the year under review, plus an additional \$16 million for deferred interest on loans, accounted for the increase of \$23 million during the year to bring the investment in the authority to \$390,888,000 at March 31, 1963 (see paragraph 158).

The \$110,555,000 of loans to the Northern Ontario Pipe Line Crown Corporation at March 31, 1963 were repaid in full by the corporation in May 1963 following the sale of the northern Ontario section of the all-Canadian natural gas pipe line.

This is where the advances, as they are needed, are charged up to the crown's investment in its corporations and agencies. As you will see, they continue to increase to the point where at March 31, 1963, the total was about \$4½ billion. Speaking broadly, you could say this represents the crown's investment in its government corporations.

The reason for some of the increases are explained in the ensuing paragraphs. You will notice, in the last point, that the loans to the Northern Ontario Pipe Line Crown Corporation, at the close of the year, were repaid in full by the corporation a couple of months later following the sale of the Northern Ontario section of the Canadian natural gas pipe line.

Paragraph 105 on page 69 is loans to national governments.

105. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1963 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1961	March 31, 1962	March 31, 1963
Belgium	\$ 36,912,000	\$ 34,605,000	\$ 32,298,000
France	143,650,000	135,200,000	67,600,000
India	29,546,000	24,831,000	20,117,000
Netherlands	74,013,000	68,850,000	32,130,000
United Kingdom	1,091,544,000	1,074,476,000	1,057,045,000
Other countries	2,531,000	1,835,000	1,587,000
	<u>\$1,378,196,000</u>	<u>\$1,339,797,000</u>	<u>\$1,210,777,000</u>

The reductions totalling \$129 million during the year ended March 31, 1963 were the result of the continued orderly repayment of each of the loans as the instalments fell due, together with special repayments by the governments of France and the Netherlands.

These, for the most part, are in the process of orderly reduction. You will see we have \$1,210,777,000 outstanding at March 31, 1963.

Paragraph 106 deals with other loans and investments.

106. *Other loans and investments.* The balances comprising this asset item at March 31, 1963, with the comparable balances at the end of the two previous years, were:

	March 31, 1961	March 31, 1962	March 31, 1963
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 631,127,000	\$ 659,936,000	\$ 693,998,000
Veterans' Land Act advances	199,644,000	207,953,000	224,486,000
Less—Reserve for conditional benefits	33,552,000	30,598,000	28,467,000
	<u>166,092,000</u>	<u>177,355,000</u>	<u>196,019,000</u>
Loans to provincial governments	98,372,000	97,879,000	116,818,000
Balances receivable under agreements of sale of crown assets	12,094,000	10,622,000	8,303,000

	March 31, 1961	March 31, 1962	March 31, 1963
Temporary loans to old age security fund	17,283,000		
Loans to Unemployment Insurance Commission ...	67,000,000		
Other balances ..	43,683,000	48,071,000	53,838,000
	<u>\$ 1,035,651,000</u>	<u>\$ 993,863,000</u>	<u>\$ 1,110,655,000</u>

The following is a listing of the balances comprising the \$693,998,000 shown for the first item in the above table as at March 31, 1963:

Subscriptions to capital:	
International monetary fund	\$ 577,250,000
International bank for reconstruction and development	80,483,000
International Development Association	24,927,000
International Finance Corporation	3,522,000
	<u>686,182,000</u>
Working capital advances and loans	7,816,000
	<u>\$ 693,998,000</u>

During the year ended March 31, 1963, Canada's subscription to the international monetary fund was increased by \$13 million, through the issue of additional non-interest bearing notes, as a result of revaluation of the Canadian dollar portion of the subscription based on the rate of exchange for the United States dollar at January 31, 1963.

The \$41,679,000 of temporary loans to the old age security fund at March 31, 1963 represented the deficit resulting from transactions up to that date in the special account provided for by section 11 of the Old Age Security Act, R.S. 200. The following is a summary of the transactions relating to the fund during the past three years:

	1960-61	1961-62	1962-63
Collections of tax			
On sales	\$270,231,000	\$284,879,000	\$302,239,000
On personal incomes	229,400,000	258,950,000	273,650,000
On corporation incomes	103,500,000	100,125,000	115,250,000
	<u>603,131,000</u>	<u>643,954,000</u>	<u>691,139,000</u>
Payments of pensions under the act	592,413,000	625,107,000	734,382,000
	<u></u>	<u></u>	<u></u>
Surplus or (deficiency) during the year	10,718,000	18,847,000	(43,243,000)
Preceding year's balance brought forward	(28,001,000)	(17,283,000)	1,564,000
	<u></u>	<u></u>	<u></u>
Balance at credit or (debit) at year-end ..	\$ (17,283,000)	\$ 1,564,000	\$ (41,679,000)

The loans to the Unemployment Insurance Commission in 1960-61, on the security of government of Canada bonds, were repaid in full during the fiscal year ended March 31, 1962 (see paragraph 181).

These include subscriptions which Canada has made to the working capital advances and loans to international organizations, loans to provincial

governments, advances under the Veterans' Land Act, and temporary loans to the old age security fund. You will notice the loans to the Unemployment Insurance Commission now are eliminated because they were advanced money under a special series of securities issued by the minister of finance in 1962. They no longer come under this heading.

The VICE CHAIRMAN: No one has expressed a desire to ask questions.

Mr. WINCH: Mr. Chairman, I have one question. If my memory serves me correctly, I believe a few years ago in the public accounts committee we had a discussion of the assets and some member of the committee raised the question in respect of the government's holdings and ownership in buildings and real estate. You will notice that in 1962 the amount was \$1,246, million and in 1963 it is down to \$820 million. We are spending from the federal treasury every year millions upon millions in new construction. I would like to ask whether or not current assets include real estate owned by the federal authority and if so, I would like to know whether there is a depreciation on that when it comes to assets. Could Mr. Henderson please explain that?

Mr. HENDERSON: No, this is basically because the form of accounting followed by the government is cash accounting as distinct from accrual accounting such as is found in private business and in the crown corporations. As you know, in the estimates each year provision is made for substantial construction of buildings, the very things Mr. Winch has described. Those are charged directly to expenditure in due course. It never has been the practice, under the accounting procedure followed, to capitalize any of what you might call the capital money that you are investing and consequently to provide for depreciation in the manner that is followed under the accrual accounting concept. That is why, in the statement of assets and liabilities which is reproduced in this report at page 168, you will see that capital assets are shown purely for the nominal figure of \$1. This practice has been followed down through the years. As a consequence they are written off to expenditure in the year in which the money is spent. You appropriate the money in the house and it ends up on the expenditure side on the statement of expenditure.

On the other hand,—and here is the anomaly of the situation—when there is an expenditure such as you were discussing in the case of the C.B.C., that will be capitalized on the books of the C.B.C. in the statement of assets, otherwise known as the balance sheet of the C.B.C. The expenditure will reflect the full cost of that capital investment and it will be depreciated. However, we do not do that in the government as such in respect of its departments. It never has been done.

Mr. WINCH: May I ask you as Auditor General what is the differentiation so far as audits and financial statements are concerned between the true picture of assets of crown corporations and the true picture of assets of the government?

Mr. HENDERSON: There is no difference in the auditing approaches other than the fact that one is written off in the total expenditure as it is spent while the other is capitalized and written off over a period of years under the accrual accounting. Obviously, there would be a more desirable and correct picture if all capital moneys spent by the federal government, in fact, were capitalized; but it would involve a tremendous change and a very large undertaking to switch over. As a matter of fact, the Glassco Commission has raised this question itself. I deal with it here in my report in my comments on the assets and liabilities. Glassco advocates a much wider adoption of accrual accounting. However, it has been conceded generally by our Canadian authorities—and they draw on the experience of the British government—that the capital money they are spending should remain charged up to the expenditure of the year rather than an attempt being made to capitalize it.

As you can see, we would have quite a picture today if we had capitalized, for example, right back from confederation the construction of the buildings here on parliament hill; we would have a very substantial asset on the books today. However, we do not do that; that is why the so-called balance sheet of Canada is described as a statement of assets and liabilities. It is a statement of those assets recorded on the books under the prevailing system and liabilities, such as the unmatured debt of Canada and the other items shown on the statement.

Mr. WINCH: Because this is of interest to me, may I ask whether there is available a separate record of the property the government owns?

Mr. HENDERSON: Yes; those records are available in the archives—a very substantial source of information to which most of us refer when we have to—and also in the Department of Public Works. The public accounts of Canada contain several schedules in which the history of some of these transactions is given right from the time of confederation. There are some schedules there which throw some interesting light on this; but the amount of research necessary to put those figures together retroactively today would be tremendous.

Mr. WINCH: That is not the point I have in mind. What I have in mind is I believe we have 22 departments in the federal government. A number of these purchase land and put up buildings, and some of them sell back and forth. I think occasions could arise in which one department no longer requires a property and some other department which is about to buy or build might use this property. In the interest of efficiency and economy, is there a central record of government lands and buildings available for easy reference by any department which may have in mind a change?

Mr. HENDERSON: Of course, there are very complete records with respect to the physical assets that we would have so that in deciding the merits of building A against building B and their usages, reference can be made to those records. However, they are not costed. Therefore, it would be a tremendous job, as I said earlier, to ascertain the cost.

Let me also point out this to you. It is because of the absence of any recording of the cost of those assets that it is so difficult for an accurate cost to be determined by the government—that is, to be a “true cost” in the business sense. They do not take into account depreciation; they do not have any of those steps at all in the cost. This is one of the accusations that business makes of government accounting.

Mr. WINCH: If a department no longer requires or wants certain land or buildings and they are for sale, is there not a record of the cost which they can check, the accretion over the years, and so on? Or do they just put it at the market value without any reference to cost and so on?

Mr. ANDERSON: If the cost is known or handy they will certainly take it into any element of cost calculations they are making. However, as you know from our work on the disposal of surplus assets, the cost may not be known although they know the physical quantities. If they have no further use for it they will declare it surplus and sell it for what they can get. That is a cash transaction right through.

The VICE CHAIRMAN: What about the valuations?

Mr. HENDERSON: I venture to suggest that the present day value of government buildings must be many times the amount originally paid for them.

Mr. SOUTHAM: Who is custodian of the titles of these properties, and where are they kept?

Mr. HENDERSON: They would all be kept in the respective departments. The Department of Public Works would be the senior department in retain-

ing these records. There is no question about the effectiveness or tidiness of this type of thing, but the trouble is that it is not costed in the orderly manner Mr. Winch seeks and which you would find in the case of business, and which we find in the case of crown corporations.

Mr. McLEAN (*Charlotte*): Mr. Henderson, in reference to the international monetary fund I see there is \$577,250,000 capital. We borrowed from the international monetary fund. Was that distinct from the capital we supplied, or were we borrowing our own money? We put up that capital; do we get any return on the capital we have put into the international monetary fund?

Mr. HENDERSON: My recollection is that we collect something. The borrowings from the fund would not appear here; that would appear in the operations of the Bank of Canada and in the exchange fund which the Bank of Canada maintains.

This figure here—and I think you were referring to paragraph 106—lists other loans and investments. It simply shows the capital subscriptions that we are making to these various bodies as a member.

Mr. McLEAN (*Charlotte*): That amount of \$577,250,000 is left there and then we borrow \$300 million from the fund. That has nothing to do with this?

Mr. HENDERSON: The exchange fund borrowed it. If I am not mistaken, I believe that all came into the operations of the exchange fund as distinct from the investment of capital you see here.

Mr. McLEAN (*Charlotte*): We go to the international monetary fund and we borrow \$300 million but we have on deposit, you may say, nearly \$600 million?

Mr. HENDERSON: I will get the precise answer to this because I think it should be looked at. I will give the information at the next meeting.

Mr. HARKNESS: There are a number of loans to and investments in crown corporations that do not appear here. Why does the Canadian Broadcasting Corporation not appear here, for example? The people of Canada have a considerable investment in the C.B.C. but it is not shown here at all.

Mr. HENDERSON: You may remember that it used to appear there in loans to the order of \$25 million or \$26 million, but these were forgiven or wiped out when the Broadcasting Act was introduced in 1958 and the C.B.C. was put on an annual appropriation basis both with respect to loans and capital.

Mr. HARKNESS: There was considerable investment. All the buildings and assets generally that are in the hands of the C.B.C. must surely appear somewhere in the accounts, and I would think this would be the place for them to appear.

Mr. HENDERSON: The equity account of the C.B.C. would, I believe, be contained in the "other balances" figure. That is not quite the figure you are seeking. It will reappear this coming year because the C.B.C. is now going back to the basis of loans for capital construction.

I think I can perhaps answer your question here. The crown's equity in the corporation at March 31, 1963, amounted to \$42 million, up from \$41 million at the close of the preceding year. That is the capital Canada has invested in the corporation, represented by its buildings, as you say.

Mr. HARKNESS: And equipment and so on?

Mr. HENDERSON: Yes.

Mr. HARKNESS: Why does it not appear as one of the investments in this list of crown corporations?

Mr. HENDERSON: I am under the impression that a portion of it is in the "other balances" figure. I believe it is included in the "other balances", but the figure I am giving you is from the C.B.C. balance sheet and they would not necessarily agree.

Mr. HARKNESS: When we have a compilation showing the loans to and investments in crown corporations—in other words, a compilation of the assets of the country—whatever assets we have in the Canadian Broadcasting Corporation would be shown in this list along with the other crown corporations?

Mr. HENDERSON: It would be better to spread them out. There is a statement in the public account showing the reconciliation of the two figures. It might be better if this schedule here were to reflect and explain all of them.

Mr. HARKNESS: I am wondering also about the Bank of Canada. We have a very large asset in the Bank of Canada but it does not appear in these loans to and investments in crown corporations.

Mr. HENDERSON: That too would be reflected in the "other balances" figure. The reconciliation between what the Bank of Canada would show and the actual investment itself could again be reflected in this equity statement in the public accounts.

Mr. HARKNESS: Would it not make for greater clarity and a better picture in the minds not only of the members of the committee but of the people of Canada generally if all our loans and investments in crown corporations were shown in one list?

Mr. HENDERSON: Yes, I think it would. With your permission I should like to see if we cannot show it that way in my next report. As a matter of fact, we are looking at this right now for 1963-64. You may remember that a breakdown was wanted of the other balances and so forth. I think it would be helpful if we were to elaborate them here.

Mr. HARKNESS: There are a number of other crown corporations. Northern Transportation, for example, is I think included under Atomic Energy. I do not know, but I would think there is a very considerable investment there.

Mr. HENDERSON: Yes, that is part of Eldorado. The capital the government has invested in crown corporations as such is small. Most of it is by way of advances.

Mr. HARKNESS: Nevertheless, there is a very considerable asset there which, again, does not appear.

Mr. HENDERSON: You are completely correct and I think it would be very useful to put that in. I should like to give consideration to it.

The VICE CHAIRMAN: Is there a reason, Mr. Henderson, for it not appearing this year?

Mr. HENDERSON: No, there is no reason, Mr. Chairman. This is a format which has been followed and which, thus far has proven to be sufficient without attempting to reproduce too much out of the public accounts. However, this link between the two for which Mr. Harkness is looking has a very definite place here and I should like to insert that. I am glad you have brought it up.

Mr. HARKNESS: In this same list there is reference to the Export Insurance Corporation. Does the \$34,900,000 odd that we now have invested in that represent loans to foreign countries or foreign buyers? What does it represent?

Mr. HENDERSON: This represents the advances made by the government to the Export Credits Insurance Corporation for working capital, you might say.

The status of the loans that it makes to the foreign governments under the different categories is shown in the accounts of the Export Credits Insurance Corporation, and you can see something of the size of those if you refer to paragraph 147 on page 103 where the whole picture of that corporation is set out.

The federal government is all the time making advances to them under the act which one could describe as working capital. The actual share capital is a fairly nominal figure.

The VICE CHAIRMAN: Thank you very much, Mr. Henderson. It is now 11.15 and I will entertain a motion to adjourn.

Mr. CAMERON (*High Park*): Before you entertain such a motion I would like to ask Mr. Henderson to give us a breakdown of the \$35 million.

Mr. HENDERSON: Indeed I would be pleased to do so. May I bring it to the next meeting?

The VICE CHAIRMAN: Next Thursday Mr. W. T. Cromb, Chairman of the War Veterans' Allowance Board, and the Auditor General will be our witnesses. We have now reached item No. 106.

Thank you, gentlemen, for coming here to assist us.

Mr. FORBES: Before you adjourn may I raise the matter of the timing of our meetings? On Tuesday and Thursday mornings we also have a meeting of the committee on agriculture and colonization. Some of us are members of both committees and are interested in both. Is there any chance that the date of this committee may be changed?

The VICE CHAIRMAN: Unfortunately we have some subcommittee meetings to consider. For example, we have one at four o'clock this afternoon and we have another on Friday. The witnesses have been lined up for some time. I would not like to take the responsibility of changing the time of any meeting, but you might take up the question when Mr. Baldwin returns.

Mr. WINCH: Why do we not do what we did previously? There was an arrangement whereby one committee met from 9.30 until 11.00 and the other met from 11.00 until 1.30. That arrangement worked out very well. Could that be discussed?

The VICE CHAIRMAN: I think it would be in order to discuss it.

Mr. FORBES: Could we not have our meetings on Fridays?

The VICE CHAIRMAN: We have a subcommittee meeting on Friday.

A week today our committee will probably sit in the morning and the afternoon. I will submit your suggestion.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 23

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

THURSDAY, OCTOBER 29, 1964

WITNESSES:

Col. W. T. Cromb, Chairman, War Veterans Allowance Board; Mr. A. M. Henderson, Auditor General of Canada, and Mr. J. R. Douglas of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Vice Chairman: Mr. P. Tardif

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Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, October 29, 1964.
(37)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Vice Chairman, Mr. Paul Tardif, presided.

Members present: Messrs. Cameron (*High Park*), Cardiff, Fane, Francis, Frenette, Harkness, Leblanc, Legault, McLean (*Charlotte*), McMillan O'Keefe, Pilon, Rock, Rondeau, Stefanson, Stenson, Tardif and Winch.—(18).

In attendance: Col. W. T. Cromb, Chairman, War Veterans Allowance Board; Mr. A. M. Henderson, Auditor General of Canada; and Messrs. G. R. Long, J. R. Douglas and B. A. Dixon of the Auditor General's office.

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

The Vice Chairman, after introducing Col. Cromb, called Mr. Henderson.

On paragraphs 103 of the 1962 Report and 88 and 89 of the 1963 Report, *War Veterans Allowances*, and *Civilian war pensions and allowances*, Mr. Henderson made a statement related to the enactment of the legislation on this subject and was examined thereon, assisted by Mr. Douglas.

Col. Cromb commented on the Auditor General's statement and was examined thereon.

The questioning of Col. Cromb being concluded, the Vice Chairman thanked him and he was permitted to retire.

Mr. Henderson tabled a return of a schedule listing loans to and investments in crown corporations as at March 31, 1963. (*See Evidence*).

Mr. Henderson also tabled a return indicating Government of Canada equity in Crown Corporations as at March 31, 1963, which was ordered printed as an Appendix to the record of this day. (*See Appendix*).

The Auditor General then reviewed paragraphs 106 to 110 inclusive of his 1963 Report and was examined thereon.

The questioning of Mr. Henderson still continuing, at 11.15 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, November 3, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, October 29, 1964.

The VICE CHAIRMAN: We have a quorum, gentlemen.

First of all, on your behalf, I would like to extend a welcome to Mr. Cromb who is our witness this morning. Colonel Cromb is the Chairman of the war veterans' allowance board. We might start by having Mr. Henderson give us his introduction in respect of paragraph 103 in the 1962 report and paragraph 88 in the 1963 report; both paragraphs refer to the same subject.

103. *War Veterans Allowances.* The War Veterans' Allowance Act, R.S., c.340, sets out the rates of allowances payable to veterans, widows and orphans eligible for assistance and prescribes that allowances paid, together with other income of the recipient, shall not exceed established ceilings. It also provides that applicants may not qualify for an allowance if they own personal property in excess of \$1,250 if eligible for single rates, or \$2,500 if eligible for married rates. The act empowers the minister, with the approval of the governor in council, to make regulations which among other things define "income", "casual earnings" and "personal property" for purposes of the act. Attention is now drawn to two anomalies in the application of this legislation:

1. "Personal property" as defined in the regulations includes cash in hand or in bank, negotiable bonds and marketable securities, but mortgages and agreements for sale are not mentioned. As a result, the allowance is made available to some whose sizeable holdings in mortgages and agreements for sale would preclude their qualifying for assistance were their assets in another form, for example negotiable bonds or securities. In an extreme case, an allowance was awarded an applicant who sold his fruit farm for \$30,000, taking \$9,000 cash (most of which was reinvested in a new home) and retaining a \$21,000 mortgage, repayable as to principal and interest at the rate of \$1,200 per annum.
2. The regulations prescribe that, for one year from the date of sale or until any of the money is used for a purpose other than to purchase another residence, whichever is earlier, the proceeds from the sale of a recipient's or applicant's residence up to an amount of \$9,000 is not personal property, and over that amount is income in the amount of 5 per cent of the excess. The purpose is to give the recipient or applicant who sells his home a reasonable opportunity to buy a new home without having his allowance cancelled or denied because of excessive personal property. In some cases, however, the purchase of a new residence takes place within a comparatively short period and the recipient is, therefore, while in possession of residual cash and personal property in excess of the maximum permitted under the act, continued on allowances until the anniversary date of the sale of the former residence.

The War Veterans' Allowance Act and the supporting regulations provide for penalties by way of fine or imprisonment or both to any person who, for the purpose of obtaining an allowance, knowingly makes a false or misleading statement or fails to disclose any material

fact or who, subsequent to becoming a recipient, fails to report immediately any pertinent information which might have a bearing upon the amount of the award. On the basis of a test examination of files during the year, 57 cases, most involving undisclosed income, in which there were false statements or failure to disclose material facts, were referred to the war veterans allowance board. In one case the recipient, on two occasions, had failed to disclose material facts: on the first occasion the allowance was discontinued and an overpayment of \$1,077 established in 1954; and on the second occasion an overpayment of \$4,289 was established when it was disclosed in the audit that the veteran's wife had been employed almost continuously since shortly after the veteran again came on allowance in July 1957. In another case, a single veteran was granted the allowance in November 1961, along with a continuing monthly grant from the assistance fund, upon his statement that he was not working, that he had no prospects of employment and only \$50 in assets. In April 1962 the allowance was discontinued when the department discovered that the veteran was employed as a full-time federal civil servant with a salary of \$6,540 and had been so at time of application—in fact since April 1960.

Following the practice of recent years, no legal action was taken to invoke the penalties provided by the act in any of the cases noted because it was considered that such action was uneconomic and accomplished little. Unless the act is amended to provide heavier penalties which the board is prepared to enforce, deliberate deceptions of this type can be expected to continue.

The legislation establishing war veterans allowances was predicated on the assumption that war veterans pre-age the general civilian population by some ten years. Thus, aside from providing assistance to those who because of physical or mental disabilities or economic hardships are unable to maintain themselves, its main purpose was to provide financial assistance to veterans of limited means at age 60 rather than at 70, the eligible age for an old age pension. In consequence, recipients on becoming eligible for the old age pension had their war veterans allowances adjusted downwards so that total annual income remained within the ceiling prescribed in the War Veterans Allowance Act.

There was a departure from this long-established principle when an amendment to the war veterans allowance regulations, approved by the governor in council, directed that from February 1, 1962, \$10 of the old age pension be considered as exempt income for purposes of the War Veterans' Allowance Act. This action was taken notwithstanding the fact that by amendment to the act, assented to on June 22, 1961, the maximum monthly allowances and the annual income ceilings of recipients had been increased by 20 per cent effective June 1, 1961. Consequently, this exemption of \$10 of old age pension had the effect of augmenting the income of a group of war veterans allowance recipients whose incomes had by statute been adjusted substantially just eight months previously.

88. *War Veterans Allowances.* In the 1962 report (paragraph 103) attention was directed to the application of the War Veterans' Allowance Act and regulations. We reported the following anomalies: (i) that mortgages receivable and agreements for sale were not considered as personal property, thus allowing awards of allowances to many applicants who would not qualify if their assets were in another form; and (ii) that proceeds from the sale of a recipient's home were not

considered to be personal property for a year after the date of sale, even when a new residence was purchased shortly after his former home was sold, thus allowing the continuation of payment of allowances in cases where the recipient was in possession of assets in excess of those permitted by the act. We reported also that action was seldom recommended by the war veterans allowance board to enforce the provisions of the act and regulations relating to penalties or imprisonment, or both, for making false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of an award. In this regard we pointed out that no legal action had been taken in 57 cases (there were 30 additional cases in 1962-63) referred to the board by this office. Our concluding comment in respect of this situation was: "unless the act is amended to provide heavier penalties which the board is prepared to enforce, deliberate deceptions of this type can be expected to continue".

These comments are reiterated as the unsatisfactory situation continues. In fact, there has been an increase in the number of persons and amounts affected because of an amendment (1962, c. 11) to the Civilian War Pensions and Allowances Act which provides for payment of the same allowances to certain civilians.

Another problem encountered concerns income of children where children are involved in awards. The table of allowances (Schedule A of the act) sets out in column III thereof the maximum total annual incomes, including allowances, which the various classes of recipients are permitted to receive. The board has directed that income from any source that is received by a W.V.A. recipient for or on behalf of dependent children does not constitute part of the recipient's income, and that income of children is not to be considered a factor in making awards to any recipient, other than an orphan recipient. The directive stems from an opinion to this effect given by the director of legal services of the Department of Veterans Affairs based on the fact that where the spouse is recognized as the dependent (Classes 2 and 4), column III of the schedule shows the total permissive income followed by the words "total for veteran and spouse" whereas where the child is recognized as the dependent (Class 3) the amount appears without restrictive or qualifying wording; thus, for this class, it was concluded, no income other than that of the recipient was intended to apply. However, it is the audit office view that, since an increased allowance for maintenance is payable because of the child, income in respect of the child (excluding income exempted by the act) should be taken into account when determining the amount of war veterans allowance to be awarded.

Moreover, section 6 of the act specifically exempts family allowances, additional allowances payable under the Pension Act in respect of children, mothers' allowances and provincial and municipal relief to dependent children; therefore, by implication it would appear that all other income in respect of children is intended to be assessable.

On the basis of a clarification given to the board by the director of legal services as to the distinction between money paid to a recipient because that recipient has a child (income of the recipient) and money paid to a recipient on behalf of a child (income of the child) the board, when granting an allowance to an individual receiving unemployment assistance has on occasion exempted a portion of that income on the grounds that it represents income of his child. Similarly, instances have been noted where a portion of a workmen's compensation award to a

war veterans allowance recipient with a child has been exempted because it was considered by the board to be income of the child. The presence of dependent children is of course a factor governing the amount of an allowance given under the Unemployment Assistance Act or an award made under workmen's compensation legislation. However, it does not follow that a portion of the allowance or award can be considered income of the children. Indeed, in the case of social assistance, payments of assistance that can be regarded as income of children are not acceptable as shareable under the Unemployment Assistance Act. Obviously, it is illogical to regard the portion of an unemployment assistance payment to the head of a household, which relates to his dependent children, as income of the children for purposes of war veterans allowance and as income of the head of the household for purposes of unemployment assistance. Therefore, if in law this portion is income of children, it has been illegally shared by the federal government under the Unemployment Assistance Act; if not, its exemption as income of a recipient of war veterans allowance is wrong.

Last year we reported that by an amendment to the regulations, which declared that \$10 of the old age security pension (\$20 in the case of a married couple each receiving the pension) was to be considered exempt income, there was a departure from the long established principle that old age pensions and war veterans allowances were parallel payments and that the exemption, in effect, increased the amounts of allowances and annual income ceilings of a group of war veterans allowance recipients whose incomes had by statute been adjusted substantially just eight months previously.

The increase of \$10 in the old age pension which came into effect on October 1, 1963 has, like that granted on February 1, 1962, been declared by regulation to be exempt income for purposes of the War Veterans' Allowance Act, thus further augmenting the income of recipients thereunder who are over 70 years of age. An item is included in supplementary estimates (D), 1963-64 (Vote 45d—veterans affairs) which provides that, effective October 1, 1963, for purposes of the War Veterans' Allowance Act and part XI of the Civilian War Pensions and Allowances Act, the old age pension of \$75 per month shall be deemed to be \$55 per month. The effect of this item, if enacted, will be to give parliamentary sanction to the exemption of these increases.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman. Again, I thought it would facilitate consideration of these paragraphs were I to give you an outline in the form of a written statement which you have before you so that you would be provided with a ready reference summarizing the substance of these two paragraphs.

The war veterans' allowance board administers the War Veterans' Allowance Act and since 1962, Part XI of the Civilian War Pensions and Allowances Act, under which similar benefits are available to certain groups of civilians, their widows and orphans, who had been engaged in hazardous occupations during world war I and world war II. The board is a statutory body reporting to parliament through the Minister of Veterans Affairs for the administration of this legislation.

In my reports to the house for 1962 and 1963 the comment was made that action was seldom recommended by the board to enforce the provisions of the act and its regulations relating to penalties or imprisonment or both for the making of false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of an award. In 1961-62, 57 cases of this type noted in the course of our test examinations were re-

ferred to the board and in 1962-63 a further 30. It should be noted that overpayments of war veterans allowances arising chiefly from concealment of income or personal assets have exceeded \$3 million in the past five fiscal years out of outlays for allowances totalling about \$355 million for this period. I might also mention that despite increases over the years in the income exemptions and the allowance for casual earnings the percentage of overpayments to total allowances paid has been increasing in the last three years.

Members of the committee may have noted a case in the press only last week where a veteran was charged with defrauding the crown in an amount in excess of \$14,000. The extent to which such prosecution may be proceeded with in the future is something which the Chairman may wish to comment upon. In recent years it has rarely been the practice to take legal action under the Criminal Code or under the War Veterans' Allowance Act because it was considered that such action was expensive and accomplished little. It seems to us that unless the act is amended to provide heavier penalties which the board is prepared to enforce, deliberate deceptions of this type can be expected to continue.

In our audit of expenditure under this legislation we have come across a variety of instances causing us to doubt whether the real intent of the legislation is being carried out. In considering this it must be borne in mind that the act provides an allowance to needy veterans under certain circumstances of age and/or physical condition. The allowance and other assessable income of the veteran must not exceed the total specified in the schedules of the act. The following examples illustrate the type of application given to the act by the board in some of the cases we have questioned:

1. Section 8 of the act limits the amount of the personal property that a recipient may hold to \$1,250 if eligible for single rates or \$2,500 if eligible for married rates. However, the act empowers the minister, with the approval of the governor in council, to make regulations which, among other things, define personal property, and personal property as defined makes no mention of mortgages or agreements for sale. As a result, the allowances are made available to some whose sizeable holdings of mortgages or agreements for sale would preclude their qualifying were their assets in another form.
2. Proceeds from the sale of a recipient's home are not considered to be personal property for a year after date of sale, thus allowing continuance of the allowance in cases where a recipient is in possession of assets in excess of those permitted by the act.
3. In connection with income of children, where children are involved in awards: The table of allowances, schedule A of the acts, sets out in column 3 maximum total annual incomes including allowances which the various classes of recipients are permitted to receive. The board has directed that income from any source received by a recipient for or on behalf of dependant children does not constitute a part of the recipient's income and that income of children is not to be considered a factor in making awards to any recipient other than an orphan recipient.

This is inconsistent with the provisions of other welfare legislation and in our opinion is also inconsistent with the intent of the War Veterans' Allowance Act because, since an increased allowance is payable under the War Veterans' Allowance Act for maintenance because of the child, it seems only logical that income in respect of the child, excluding, of course, that exempted by the act, should be taken into account when determining the amount of war veterans allowance to be awarded.

The cases mentioned in paragraph 103 of my 1962 report on page 46 illustrate two anomalies existing in the application of this legislation, while a third case, involving a recipient who had failed to disclose material facts on two occasions, indicates the type of problems encountered.

That completes the remarks I have to make at this stage, Mr. Chairman.

The VICE CHAIRMAN: There are some questions which were asked by some members of the committee at the last meeting to which Mr. Henderson has the answers. Mr. Henderson is of the opinion, and I agree, that probably the answers to these questions best could be given when we reach another point in this morning's study.

The meeting is open for questions of the witness.

Mr. WINCH: Is there going to be a statement from Colonel Cromb first?

The VICE CHAIRMAN: Do you wish to make a statement first, Colonel Cromb?

Colonel W. T. CROMB (*Chairman, War Veterans' Allowance Board*): I might make a very brief statement and then answer questions, if you wish.

Mr. WINCH: I think it would be very advisable if we could have Colonel Cromb's statement on some of the matters raised by Mr. Henderson.

Mr. CROMB: I will be pleased to do that. The war veterans' allowance board is a statutory body which administers the War Veterans' Allowance Act and part XI of the Civilian War Pensions and Allowances Act. In the case of the war veterans' allowance recipients it is for the benefit of persons who by reason of age or infirmity are no longer able to make their way on the labour market. We endeavour to administer this act in line with the spirit of welfare legislation, which the War Veterans' Allowance Act is, and attempt to follow the interpretation act which states in part in section 15 that interpretations should be fair, large, and of liberal construction and interpretation. In that way, the spirit of the act, in the light of it being welfare legislation, governs the decisions which we make in connection with awards.

In referring to the paper which Mr. Henderson has placed before you with regard to penalties, if it is your wish I perhaps might explain how we work in connection with those cases, and then if there are questions arising out of that part of the report, I would be very pleased to endeavour to answer them.

In the past, a good many cases have been prosecuted under the Criminal Code on the advice of the Department of Justice rather than under section 20 of the War Veterans' Allowance Act. The War Veterans' Allowance Act does have penalties but they are very light. In many cases they consist of a fine of not less than \$15, and not more than \$100, or imprisonment for a term not exceeding three months, or both fine and imprisonment. However, the Department of Justice, which advises all departments of government in connection with legal matters, is not confined to the penalties outlined in the War Veterans' Allowance Act; they endeavour "to make the punishment fit the crime" by using the Criminal Code and also the civil code.

Experience with prosecutions has indicated that the courts of the land are very lenient for three reasons. First, the wrongdoer is a veteran; second, consideration is taken of the age of the wrongdoer and, thirdly, consideration is taken of the condition of health. The courts of the land are inclined to be lenient and our experience has been that the result of most prosecutions very frequently take the form of suspended sentences.

In respect of the suggestion that the War Veterans' Allowance Act should be amended to include stiffer penalties, I might mention the case of one court action which the Auditor General has brought up here, to indicate that the Department of Justice is not limited only to what is contained in the penalty section of the War Veterans' Allowance Act but does proceed through the Criminal Code to much stiffer penalties.

The case which is referred to here is the case of a veteran recipient who proceeded to make application and was awarded the allowance and at the same time secured employment and worked concurrent with receiving the allowance. By this means he was able, by fraudulent deceit, to build up a large overpayment. He appeared before the court in October, 1964. He pleaded guilty before the magistrate of the charge of defrauding the crown, but prior to the passing of the sentence he suggested to the magistrate that he now was in a position to make restitution. He stated he would commence making regular weekly payments of \$15 to start in the following week. He also suggested to the magistrate that he hoped that within a period of six months to come into some funds. His main excuse was that he had many medical bills which had been incurred by his wife and he had taken this means of getting as much money as he could. He received a suspended sentence of two years less a day, contingent upon the debtor continuing to make weekly payments.

Mr. HARKNESS: Was this the case involving an amount of \$14,000?

Mr. CROMB: Yes. There are two points involved in this. We do not know about the size of these overpayments until the damage is done; secondly, the Department of Justice does go beyond the penalties laid down in our act.

Frequently we take civil action to recover overpayments but if it is decided not to proceed in that manner, because of the expense and little hope of getting the money returned to the crown, if a man is still on the allowance, we make a deduction from his allowance toward that overpayment. In addition to that, we take mortgages on the property of a recipient which will not be executed until the recipient and/or his wife have died, unless the property is sold. This is a good system, because in respect of the recipients in the older age group, the crown is protected against a complete loss.

We also register judgments or executions to take care of overpayments which are outstanding, and those are kept in good standing by the legal services of the Department of Veterans Affairs.

I do not hold very much sympathy for the wrongdoer who is deliberately fraudulent. However, we do have a problem when a situation arises maybe a year or two years after the overpayment has been in progress; we do not know about it until that time and then we have to do the best we can in order to recover the overpayment. At the same time, if the man still is a recipient we have to see that he has enough to live on; in making overpayment recoveries we still have to ensure that he has enough income for sustenance and maintenance for himself and his wife.

Mr. CARDIFF: I had a gentleman come to me the other day. I cannot confirm anything that is before me. However, I told him to put his case on paper. I do not know the man, but he knew me; I never had had any contact with him. I will read to you, in part, what he had to say. His name is I. A. Hildebrand, 178 Regent Street, Goderich, Ontario. His age is 68 and his wife will be 70 next June. This is what he has to say: "I was cut off in my pension because my wife had some money left to her. They took all my unemployment insurance and also \$936 which was overdrawn. I was in need of hospital care. They took it away. My back is very bad and my arms. I cannot sleep at nights. I owe doctors' bills and I have no work and no money and have to depend on my family for my keep. Mr. King"—I do not know who he is—"told my wife to spend the money and that is exactly what she did. Mr. Gray said I could get it back if she left me the pension. My age is 68 and my wife will be 70 next June."

The VICE CHAIRMAN: Because we have great respect for you we have allowed you to bring this matter before the committee, but this actually is out of order because the purpose of the committee is not to bring forward individual cases but to ask questions. It is very difficult for the witness.

Mr. CARDIFF: I do not expect Colonel Cromb to give me an answer, because he has not had an opportunity to look into this. However, apparently this man is in a bad state.

Mr. CROMB: I would be very glad to look into this if you would give me the letter.

Mr. CARDIFF: I will give you the letter. Maybe you can read it better than I can.

Mr. CROMB: We have some people who are pretty good at that.

Mr. FRANCIS: Is it not true that veterans who are in receipt of the war veterans' allowance also are in receipt of medical care through government provision?

Mr. CROMB: That is right. War veterans' allowance recipients are entitled to complete medical care, glasses, teeth, the whole thing.

Mr. FRANCIS: Therefore, the plea in respect of medical expenses by a man who has been in receipt of war veterans allowance for some period is a bit of a puzzle to me. In what circumstances would he incur heavy personal medical bills?

Mr. CROMB: I have not seen the file. It may be that these expenses are on behalf of the veterans' wife; they certainly would not be on his own behalf because he is entitled to complete medical treatment.

Mr. FRANCIS: Do you have any statistical summary of prosecutions or cases which have been referred for prosecution; is there any way in which we might obtain an over-all picture of the effectiveness of these penalties? Individual instances of suspended sentence, and so on, have been reported; but is there any statistical summary showing the number of cases which have been referred for prosecution and showing the general scope of the prosecutions?

Mr. CROMB: I do not have figures on that. Overpayments do arise, but there are not very many large ones.

Mr. FRANCIS: We are dealing with a small fraction of your case load?

Mr. CROMB: Yes.

Mr. FRANCIS: Perhaps we might have some indication of the number of cases which are referred for prosecution?

Mr. CROMB: I will endeavour to obtain that information.

Mr. FRANCIS: Is it your view that these penalties, as the Auditor General suggests, are inadequate?

Mr. CROMB: No, Mr. Chairman. The penalties in the act are in there merely as a deterrent and to show there are penalties for breaking the law; but so far as prosecutions are concerned, the Department of Justice takes the appropriate section of the Criminal Code or of the civil code.

Mr. FRANCIS: Would you indicate that it might be one per cent of the case load that would be involved?

Mr. CROMB: It would not be much more than one or 2 per cent at the very most.

Mr. FRANCIS: If we are dealing with such a small percentage of the case load, does Colonel Cromb still think a fine of \$15 is an adequate fine for this type of abuse?

Mr. CROMB: No, I do not think that is enough, but what I am trying to bring out is that when these cases are referred to the Department of Justice they do not follow our penalties at all; they take the Criminal Code and the civil code and act on the appropriate section which will produce a much more severe penalty than what is in here.

Mr. FRANCIS: Then why do we have this section in the legislation?

Mr. CROMB: It has been there for a long time. My understanding of it is that it is a deterrent to show them that if they do break the law they may be penalized by our act.

Mr. FRANCIS: Personally, I would support a recommendation by this committee in respect of the adequacy or inadequacy of the penalties in respect of fines.

With relation to the provision which the Auditor General has brought to our attention, having to do with mortgages and the case where a veteran sold his fruit farm for \$30,000, taking \$9,000 in cash and the balance in a mortgage—and this was possible because mortgages are not specifically mentioned as personal property—do you not think there is an anomaly here? I would like to hear Colonel Cromb's views on this.

Mr. CROMB: The practice of not considering mortgages as personal property has been in operation for many years. I might deal with the mortgage example which is contained in the Auditor General's report of 1962, and tell you just what occurred in this case. The War Veterans' Allowance Act and the regulations say that income shall include the net income or value of all income received, whether in cash or in kind, except for certain exemptions. In the use of the word income, we use the word incomings—all the incomings which a recipient may have on which to live. We have cases such as that of a widow who has to sell the old home when her husband dies. Although the example here is one of the most extreme in the size of the mortgage, the average mortgage which we come across is in the amount of \$4,500 or \$5,000 in which the widow perhaps will take \$1,000 and mortgage receivable payments of \$40 a month. If we were to count that as personal property, she would have no help under the War Veterans' Allowance Act; she would be limited to \$40 a month. What we do—and this has been done for many years—is we count mortgage receivable payments as income and supplement it by the war veterans' allowance up to the ceiling. In the case of a widow with no children she would get \$108 a month as a ceiling. If she had an income of \$40 a month from mortgage receivables, we would supplement that up to the ceiling of \$108. We do not treat income the same as it is treated by the Income Tax Act. Our act is not intended to accomplish the same thing as the Income Tax Act. Therefore, we use the word "incomings"—all moneys available to the recipient for maintenance, and if it is not enough we will supplement it up to the ceiling.

In the case of the example on page 46, the veteran was receiving mortgage receivable payments of \$100 a month and we assessed that. The rate at which he was put on was \$71.92 a month. He was a married man, so we took his \$100 mortgage receivable payment and it came to an income of \$174. He died on October 3, 1964, and his wife was given the married rate for the period following his death and now, at the moment, she is being placed on the rate of a widow, on single status, and we are paying her \$5.92 a month because this amount of \$100 is still coming to her.

Mr. FRANCIS: This is, after all, a welfare program and I find it hard, personally, to justify welfare payments to a person with assets of \$30,000, because it is so much out of line with the present ceilings imposed in respect of comparable programs such as those for disabled persons, blind persons, and so on. If this veteran sold his farm for \$30,000, he can get \$9,000 plus the principal and interest payments, or he could take \$12,000 in cash and small interest payments, or cut his principal and interest payments to the minimum, and thereby draw more from you and leave more in his estate. Does this not leave it open to the possibility of the crown being defrauded?

Mr. CROMB: If you take the case of a veteran who has sold his property on a mortgage basis and say he is not eligible for war veterans' allowance

because that is personal property, he could discount it and sell it at a considerable sacrifice to himself and then come on our allowance at the full rate in a fairly short time because we allow a recipient to reduce his personal property at the rate of \$250 a month. There is a personal property ceiling of \$2,500 and we will permit him normal living expenses and repairs to his home in reducing his personal property. If we force a veteran to sell his property at a great sacrifice, he can reduce his personal property and then come to us at the full rate. As a matter of fact, the way we do it by treating mortgage payments as income it is much less costly than it would be if the man sacrificed the property and came on to us at the full rate.

Mr. CAMERON (*High Park*): As administrator of the act you have to make the decisions in respect of prosecutions?

Mr. CROMB: We make the recommendations and after that it is taken over by the legal service of the Department of Veterans Affairs and discussed with the Department of Justice.

Mr. CAMERON (*High Park*): I suppose there are two principles involved; there are some infractions which do not warrant prosecution because they are innocent or small and can be relieved in another way, and some others which are borderline cases in which you may or may not recommend prosecution. Who makes the decision in these cases?

Mr. CROMB: We make a recommendation to our departmental legal service for transmission to the minister and the Department of Justice.

Mr. CAMERON (*High Park*): You make the recommendation to the legal branch of the Department of Veterans Affairs?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): Does that legal branch make a recommendation to the Department of Justice with regard to whether or not the case should be prosecuted?

Mr. CROMB: Yes, after going over the entire situation.

Mr. CAMERON (*High Park*): The same thing would apply to definite cases of fraud, concealment of income, and so on?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): That is how it is done.

Mr. CROMB: Under our act, whether the overpayment has been incurred through fraudulent action or by mistake, it makes no difference. Section 19 of our act states that if a recipient has received money to which he is not entitled it is recoverable.

Mr. CAMERON (*High Park*): In every case it is referred to the legal department, whether or not it is a minor case?

Mr. CROMB: If it is a small case we will just start recovering from the recipient.

Mr. CAMERON (*High Park*): When the legal branch makes a recommendation, does the Department of Justice accept that recommendation or does it exercise its discretion and say, no matter what you think about it, we think it should not be prosecuted, or should be?

Mr. CROMB: It exercises its discretion.

Mr. CAMERON (*High Park*): The Department of Justice has the final say in it?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): Mr. Francis referred to the case of the man who sold his farm, and in this case this man may be receiving very substantial principal payments.

Mr. CROMB: The principal and interest payments were in the amount of \$100.

Mr. CAMERON (*High Park*): If he was getting \$2,000 a year for a period of ten years, would that be taken into consideration?

Mr. CROMB: We just take into consideration the money which is coming to him on which he may be able to live.

Mr. CAMERON (*High Park*): Do you think that is equitable when you consider others who are not in that same position?

Mr. CROMB: This is an extreme case. The average mortgage is a very small one, \$4,500 or \$5,000 and even less. Since the personal property limit is \$2,500, you could have a case of a veteran not being able to receive war veterans' allowance and having only, perhaps, \$40 a month on which to live.

Mr. CAMERON (*High Park*): Who made the decision that that is the way it should be handled?

Mr. CROMB: The board. Section 23 of the War Veterans' Allowance Act gives fairly strong powers to the district authorities. The district authority has full and unrestricted power and authority, and exclusive jurisdiction, to deal with and adjudicate upon all matters and questions arising under this act, in the district in which the district authority is established. They have quite strong powers. The idea is to see that the man has sustenance and maintenance within the ceiling.

Mr. CAMERON (*High Park*): I suppose that section would be interpreted in the light of the contents of the act?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): In this particular circumstance do you feel you were within the intent of the act in allowing a man with a \$30,000 property to receive full benefit under the War Veterans' Allowance Act?

Mr. CROMB: Before he came to us all he had was \$100 a month; he was no longer able to work; he was elderly, and we just supplemented up to the ceiling. We would not allow a recipient to dispose of property in order to qualify. This is the intent of the War Veterans' Allowance Act in the case of recipients who have reached the degree of age or infirmity where they no longer are able to make their way in the labour market.

Mr. CAMERON (*High Park*): At first blush, to me at any rate, it seems to be very inequitable vis-à-vis other veterans who are not in that position. He has an asset which he can use and get income from and yet he is in receipt of the war veterans' allowance.

Mr. CROMB: He is not receiving the full war veterans' allowance.

Mr. CAMERON (*High Park*): Whatever it is.

Mr. CROMB: In the case of the widow the ceiling is \$108 and she is getting \$5.92.

Mr. CAMERON (*High Park*): In the meantime the \$21,000 is being conserved, I assume, for the benefit of someone's estate?

Mr. CROMB: It is coming in at the rate of \$100 a month.

Mr. CAMERON (*High Park*): That is income?

Mr. CROMB: Yes.

Mr. CAMERON (*High Park*): It is not principal?

Mr. CROMB: I think it is principal and income, the whole thing.

Mr. McLEAN (*Charlotte*): How many cases do you have under administration?

Mr. CROMB: I do not have the figures. The cases under administration are cases of people who are not handling their money well.

Mr. McLEAN (*Charlotte*): I mean your entire administration.

Mr. HARKNESS: How many recipients?

Mr. CROMB: Approximately 83,000 recipients.

Mr. McLEAN (*Charlotte*): Of that 83,000 what percentage do you have any trouble with?

Mr. CROMB: I would say not more than 3 per cent.

Mr. McLEAN (*Charlotte*): Would it be that high?

Mr. CROMB: It is hardly that.

Mr. McLEAN (*Charlotte*): It has been claimed that the penalty is too small, but is it not true that if an overpayment is made to a veteran he is still in need when you try to get the money back?

Mr. CROMB: He is still in need, yes.

Mr. McLEAN (*Charlotte*): So, you are working a hardship on him?

Mr. CROMB: Not beyond his means.

Mr. McLEAN (*Charlotte*): If you tried to put him in jail and made the penalty greater you would be increasing the hardship of the veteran.

Mr. CROMB: That is true. I might give another example which is mentioned in the same report in connection with overpayment. This is on page 46: it is the case of a veteran who was receiving the allowance and working for the Department of Agriculture at the same time.

Mr. FRANCIS: At over \$6,000 a year.

Mr. CROMB: We did not spot that until after it was done. We would not do this if we knew. I can give you the answer in this case. It happened in 1962. Criminal proceedings were not undertaken but under the Financial Administration Act, section 95 (1), all the money was recovered at the rate of \$75 a month from his salary. The overpayment has been wiped out and that veteran now is under domiciliary care; he is back on the allowance under domiciliary care.

Mr. McLEAN (*Charlotte*): In his case there was no hardship?

Mr. CROMB: No.

Mr. McLEAN (*Charlotte*): Do you have an actual system of inspection by which you follow up the cases?

Mr. CROMB: Yes. Calls are made in the district by veterans' welfare officers of the Department of Veterans Affairs regularly. An annual statement is made by the recipient in respect of his condition being unchanged. We receive a report each year stating there is no change.

The VICE CHAIRMAN: Are these declarations made under oath?

Mr. CROMB: No; they are witnessed. We found out that the making of these declarations under oath caused a tremendous amount of work for the Veterans' welfare services branch by people who are not able to read very well. We have people who have language difficulties, and we have found it was quite satisfactory to have a witnessed statement.

Mr. McLEAN (*Charlotte*): The cases are constantly under review?

Mr. CROMB: Yes.

Mr. McLEAN (*Charlotte*): There are no awards for meritorious service?

Mr. CROMB: No; that comes under the Canadian Pension Commission.

Mr. HENDERSON: Mr. Chairman, Mr. Douglas has here the overpayments in the past fiscal year. It might serve to put this in better focus if he were to give the figures.

The VICE CHAIRMAN: Also, it would answer a question asked by Mr. Francis.

Mr. J. R. DOUGLAS (*Supervisor, Auditor General's Office*): In the fiscal year 1963-64 the total number of cases involving overpayments were 2,176, which is approximately 2.7 per cent of the case load, and the money involved was approximately \$750,000.

Mr. FRANCIS: Thank you.

Mr. CARDIFF: Mr. Crompton, when a returned veteran owns his own property, you do not consider that when you are considering an allowance, do you?

Mr. CROMB: A recipient is allowed to have an interest in real property of \$9,000 if it is his residence. If he has an interest in an amount more than that, we charge 5 per cent on the overage of the \$9,000 which he is entitled to.

Mr. CARDIFF: He is not paying rent, but he is paying taxes; is that allowed?

Mr. CROMB: No; that is his own expense under the War Veterans' Allowance Act. This is a categorical type of act; it is based on a means test and not on a needs test. It is quite true that a man who owns his own home is better off than a man who is paying rent; they both get the same allowance because it is on a means test basis rather than on a needs test basis.

Mr. STENSON: Going back to the fruit farmer again, was he forced to sell this property to be able to receive the war veterans's allowance?

Mr. CROMB: I do not know, because he had done this before he became a recipient.

Mr. STENSON: Had he held the property and your department figured it was worth \$30,000, would he have received the benefit without disposing of it?

Mr. CROMB: The decision was made on the district authority. I do not know when he sold it, but when he came to them this was the situation; all he had to live on was \$100 a month. On that basis they put him on the allowance and supplemented it to the ceiling.

Mr. STENSON: What does the statute say if a veteran has a farm or property worth \$30,000 or \$40,000 with no income from it?

Mr. CROMB: If it is not his home we can assess what we consider to be a fair and just income that he could receive from it. If he has a home and leaves it or rents it, we will assess the rest, less the expense he has, to keep it up; we will assess that. However, if he leaves that standing vacant and could do something with it, we can put on a value as to the income he should receive from it.

Mr. HARKNESS: If a veteran has a farm worth \$30,000 and applies for war veterans' allowance he is not eligible and you would not put him on war veterans' allowance under those circumstances, but if he sells that farm and has an income of only \$100 a month and applies, he then is eligible?

Mr. CROMB: Yes.

Mr. McMILLAN: The Auditor General has told us that the overpayments in the last year were \$750,000. What percentage of that would be recovered?

Mr. CROMB: I do not know exactly, but if the veteran is still a recipient very one of those overpayments will be recovered out of his allowance. The only time we cannot do much about it is when it is a small overpayment and he is no longer a recipient. When he comes back on again we pick it up; we do not let any of these just die.

Mr. McMILLAN: But you do take mortgages?

Mr. CROMB: Yes, and we take executions and judgments.

Mr. McMILLAN: You have no idea what percentage is recoverable?

Mr. CROMB: I would say that an attempt to recover portions of it are made in most cases. I am quite sure Mr. Douglas would agree with me that many

of those overpayments are small, and as time goes on they are recovered. Many overpayments occur when a man is working and does not let you know in time that he has been working; these amounts may be in the neighbourhood of \$100, a little less or a little more. Sums of that amount would be recovered from the allowance; but it takes some considerable time with the large amounts.

Mr. McMILLAN: You mentioned the case of a man who deprived the crown of \$14,000; that would be over a period of years. You say a check is made every year. How would that be missed?

Mr. CROMB: It is pretty hard to defeat somebody who is really clever in this sort of business. This was because of falsification of statements he made.

Mr. McMILLAN: Nobody was sent out to check?

Mr. CROMB: Yes. He was checked. I do not have his file here, but in this case he had been working for some time for the University of Toronto and had stated to welfare officers on two or three occasions that he was unemployed. It was not until a call had to be made to contact him that it was discovered he was not at home because he was at work. That is when the thing came out.

The VICE-CHAIRMAN: Was he lecturing at the University of Toronto?

Mr. CROMB: No.

Mr. HARKNESS: Is it not a fact that these overpayments fall in two general classes; first, there are those in which the man concerned has deliberately defrauded the government and has knowingly drawn war veterans' allowance when he knows he is not entitled to do it. On the other hand, the larger part of these overpayments is on account of veterans who have acted unknowingly, and who considered they were entitled to whatever earnings they were making in addition to drawing the war veterans' allowance. In some cases it has been due to unfamiliarity with the act and to a lack of knowledge in respect of exactly what their entitlement was. In other cases, it has been due to an inability on their part to maintain a sufficiently good record of their earnings in order to know their status with regard to their limitations.

The VICE-CHAIRMAN: Are you being charitable?

Mr. HARKNESS: I beg your pardon.

The VICE-CHAIRMAN: Are you being charitable? How could you think of things like that?

Mr. HARKNESS: I have mentioned these things because of my own experience in respect of these cases, and I am asking Mr. Cromb if such is not the situation. Am I not correct in assuming that the largest percentage of people have not set out to defraud the government but the situation has arisen because this group, in most cases, did not know what was happening.

Mr. CROMB: That is very true. I feel that we all understand that a very very large proportion of war veterans' allowance recipients play ball, are very honest and that the numbers who are fraudulent in their actions are very small. Many overpayments occur through lack of knowledge as to what they are supposed to do, and these may occur through, say, workmen's compensation coming into effect, as well as seasonal money coming in to a person who did not know about it and did not report it. Many things happen through a lack of knowledge on the part of the recipient. There are language barriers. Many of these recipients are aged and are quite incapable of sorting out certain aspects of this, even though they have been counselled. As I say, from time to time these things do occur. However, in my opinion, it is not a wilful act. The wilful acts are very small in number.

Mr. CARDIFF: Do you not think that this comes out because certain groups of people live beyond their means; they get into a little debt and they try

to recover by earning a little more money than is given to them. Do you not think that provides a reason in many of these cases?

Mr. CROMB: Yes, I am sure that is a common reason.

The VICE-CHAIRMAN: You would not be downgrading the veterans would you, because the veterans who come to me know the act better than Mr. Cromb or just as well, in any event.

Mr. CROMB: I would say they know it as well.

Mr. FRANCIS: In respect of Mr. Harkness' comment it would seem to me we are not really concerned with what would be in the category of administrative overpayments which will arise in any program where there is no attempt to defraud, but rather we are concerned with the very small minority of cases where there are misstatements and concealments. As you know, this happens under any program, but in the interests of those living within the spirit of the act I think we should make sure that appropriate penalties are applied against those who deliberately and consciously have violated the act. I cannot help but feel at this stage of the discussion that there are instances which give us some concern and I do think it would be wise to strengthen the penalty provisions in the act itself in order to deal with cases where deliberate representations of fraud were apparent.

Mr. HARKNESS: My only comment in connection with that is that Colonel Cromb has indicated there is no need to do this because these people can be proceeded against under the Criminal Code.

Mr. FRANCIS: In this case it would prove interesting to have the results of my previous question in respect of prosecutions.

The VICE-CHAIRMAN: Colonel Cromb has agreed to supply this information to us.

If there are no further questions, in the name of the committee, Colonel Cromb, I want to thank you for coming this morning. You have been a very good witness and have answered a lot of the questions which have been in the minds of the members of the committee for a very long time.

Mr. CROMB: Thank you very much.

The VICE-CHAIRMAN: Thank you for coming.

Gentlemen, at the time of our last meeting we had reached paragraph 106, other loans and investments, which is in your 1963 report at page 69.

Would you like to make a comment on that, Mr. Henderson?

Mr. HENDERSON: If you do not mind, Mr. Chairman, I have some information to furnish with regard to paragraph 106, in response to a question put by Mr. McLean. Also, I have information I undertook to furnish under paragraph .04 in response to questions from Mr. Cameron and Mr. Harkness. Could I take paragraph 104 first?

The VICE-CHAIRMAN: Yes.

Mr. HENDERSON: Mr. Harkness was inquiring as to the nature of the loans to and investments in crown corporations shown in the tabulation in paragraph 104 for the year ended March 31, 1963, with particular reference, I think, to capital stock as distinct from working capital and other advances. While Mr. Cameron asked for a breakdown of the other balances figure in the amount of \$35,552,000 shown in that tabulation.

I have here a schedule listing these loans and investments at March 31, 1963, which breaks it down.

The VICE-CHAIRMAN: Is it agreed by members of the committee that the document which is now being produced by the Auditor General will be printed in the evidence.

Agreed to.

Mr. HENDERSON: The table follows:

Loans to and investments in crown corporations. The following schedule lists these loans and investments at March 31, 1963.

	Capital Stock at cost	Advances	Total
Central Mortgage and Housing Corporation		\$1,802,806,907	\$1,802,806,907
Canadian National Railways	\$ 970,697,945	468,629,714	1,439,327,659
The St. Lawrence Seaway Authority ..		390,833,009	390,833,009
Farm Credit Corporation		263,963,039	263,963,039
National Harbours Board		192,579,474	192,579,474
Northern Ontario Pipe Line Crown Corporation		110,555,000	110,555,000
Atomic Energy of Canada Limited	28,760,993	24,497,224	53,258,217
Canadian Overseas Telecommunication Corporation		49,320,747	49,320,747
National Capital Commission		40,906,111	40,906,111
Export Credits Insurance Corporation ..	5,000,000	29,954,396	34,954,396
Polymer Corporation Limited	30,000,000		30,000,000
Northern Canada Power Commission ..		19,003,196	19,003,196
Canadian Commercial Corporation		9,500,000	9,500,000
Eldorado Mining and Refining Limited .	8,246,377		8,246,377
Canadian Arsenal Limited		7,500,000	7,500,000
Bank of Canada	5,920,000		5,920,000
Canadian Broadcasting Corporation ..		3,000,000	3,000,000
Canadian National Railways—re Yarmouth/Bar Harbour ferry		763,684	763,684
Canadian National (West Indies) Steamships Limited	976	324,024	325,000
Canadian Patents and Development Limited	296,199		296,199
	<u>\$1,048,922,993</u>	<u>\$3,419,196,375</u>	<u>\$4,468,119,368</u>

The breakdown I am furnishing at this time is in respect of the total figure of \$4,468,119,368. It shows the capital stock at original cost in one column; that is to say, the shares held by the crown. In the other column it shows the advances. Some of these advances are capital advances; others are working advances. I can deal with any questions which may come under that heading, as you look over the figures.

At the same time, Mr. Harkness raised the question about the crown's equity in its investment in crown corporations, and it might be helpful if I include in the record, with your permission, a copy of appendix number 12 from the public accounts 1962-63, which shows the government of Canada's equity in crown corporations at the close of the year. This is an involved statement, accountingwise, which can be explained. However, I would point out it causes explanatory footnotes, which you may have noted, when looking at this in the public accounts. It reconciles to the figure of \$4,468,119,368. If I might explain, in respect of this appendix, that the unrecorded government equity column includes the surpluses less the deficits, reserves and certain other balances shown on the financial statements of the crown corporations at their respective year's ended coincident with, or immediately prior to, the government's fiscal year end. On the other hand, it excludes those amounts which, although designated by certain crown corporations as proprietor's equity, have been financed by the government of Canada and charged to government expenditures, and have been fully expended in the acquisition of the crown corporation's capital assets.

My officers have already held discussions with respect to the composition of the amounts to be included in the unrecorded government equity listing with the end in view of having the appendix made more informative and factual.

The VICE-CHAIRMAN: It is agreed that this document should be made an appendix?

Some hon. MEMBERS: Agreed.

Mr. HARKNESS: In respect of the particular two cases which I mentioned at our last meeting, the Bank of Canada and the C.B.C., the equity shown is not the real equity of the taxpayers of Canada in these corporations; the equity shown for the C.B.C. is \$9 million but the actual equity is very much more than that because this figure does not include any other capital assets, lands, equipment and so on.

Mr. HENDERSON: Mr. Harkness is putting his finger on a point we have had under discussion with the officers of treasury for the past several years. In this case the government's equity in the C.B.C. consists of the working capital, which the Broadcasting Act, 1958, says the C.B.C. is to have. Actually, on the balance sheet of the C.B.C. the proprietor's equity, as they refer to it, is of the order of \$42 million. There are a number of factors which enter into this, which can be explained. If I might give a very simplified explanation at this time, it is that the government in this particular case has not taken into its investment figure money that it has voted and written off to expenditure over the years which, so far as the C.B.C. is concerned, they have credited to the government and which represents money invested in equipment, etc. These two figures have to be brought into balance or otherwise reconciled and the figure in the unrecorded equity column in our opinion requires some adjustment because it is not in keeping with the facts. We do not have very many cases like that.

Mr. HARKNESS: In order to present a true picture, which is needed, is a different method of recording the equity which exists under consideration?

Mr. HENDERSON: Yes, and we are hoping this can be straightened away in the fiscal year's accounts which we are completing now with the treasury officers—that is to say, at March 31, 1964—so there could be a truer reflection of the government's equity in each of its own creatures.

On the schedule that you will see covering the loans to and investments in crown corporations you will notice the government does not appear to have any capital stock invested in for example, Central Mortgage and Housing Corporation, the St. Lawrence Seaway Authority, Farm Credit Corporation, and the Canadian Overseas Telecommunication Corporation. This is because included in the advances column are advances which are considered to represent capital advances in lieu of subscriptions to capital stock as such. That is generally the way the legislation provided for it and that is how the money has been invested. At any time information is required in respect of any specific corporation this can be furnished. We have not shown a separate column for such cases because it is not possible to do it on this schedule.

Mr. HARKNESS: How would you propose to show all of these assets in the future so we could have a more or less complete picture of what, I will say, are the people's assets.

Mr. HENDERSON: I am making provision in my forthcoming report for the year ended March 31, 1964, to show under paragraph 104 a summary similar to the one I am handing you today with regard to the year previous rather than simply putting in the total figures on a three year comparative basis, and then underneath the schedule to explain the changes that have taken place in the year with regard to the holdings.

Do you feel that would provide sufficient explanation so far as my report is concerned?

Mr. HARKNESS: This still would not show what we would like to see in respect of the particular case we are mentioning, that of the C.B.C., and the \$40 million worth of assets covering land, equipment and so forth, which they hold.

Mr. HENDERSON: If it does not show it would be something upon which I would comment in order to explain the status of the considerations which are involved. If it is not possible to resolve it this year in our discussions with the treasury officials it may have to be carried forward, and this may prove to be a useful exercise.

Mr. HARKNESS: May I take the case of the Bank of Canada, in which the equity of the government is shown at \$30 million. The actual assets of the Bank of Canada are a very, very great deal in excess of that. I do not know what they run to.

Mr. HENDERSON: The majority of them are in the unrecorded government equity column.

Mr. HARKNESS: It is \$25 million.

Mr. HENDERSON: The capital is \$5,920,000.

Mr. HARKNESS: And, \$25 million in the unrecorded?

Mr. HENDERSON: Yes.

Mr. HARKNESS: But the total assets are greatly in excess of \$30 million?

Mr. HENDERSON: That is the point. Those are the things we have under discussion at this time.

Mr. HARKNESS: As I say, I do not know to what amount they run but it is probably over \$1 billion. But, they are only shown as \$30 million. So, in this case, we are getting a twisted picture.

Mr. FRANCIS: Would it not be a rather difficult business to do a valuation of the government's equity in the Bank of Canada?

Mr. HARKNESS: The Bank of Canada holds so many millions of dollars worth of gold, for one thing.

Mr. FRANCIS: And, as well, they have liabilities.

Mr. HARKNESS: And they have various other assets.

Mr. HENDERSON: The \$25 million you speak of carried and shown in the public accounts as unrecorded in the government accounts represents, I believe, the rest fund which the Bank of Canada carries and which, I assume, was created in its early days; whereas the government did invest \$5 million toward the original capital when it made its original investment, and the bank itself since has generated the \$25 million rest fund. Now, the parent company, in this situation, the government, has not taken up on its books or reflected the \$25 million accumulated profits or earnings which, in effect, have constituted that rest fund.

The manner in which that should be presented here is, as I say, the subject matter of our present study because it does not necessarily follow in the type of accounting followed that this \$25 million should, in fact, be recorded by the government of Canada on its books. The statement of assets and liabilities in the Public Accounts does not purport to be a consolidated balance sheet in the sense of a corporation and subsidiaries. This is an interesting point and well worthy of attention. But, it would seem to me if a presentation of the problem is made under this heading that that should be sufficient for the time being rather than attempting to press for its inclusion on the government's balance sheet. Before you can reach final decisions in matters of this kind considerable research into the history and the facts

which caused the figures to be allocated in the first place has to be undertaken. We have been fully aware of this for a number of years and we have been trying to bring it to a conclusion in the last two years.

The VICE-CHAIRMAN: Have you a question, Mr. Francis?

Mr. FRANCIS: I think the Auditor General has anticipated some of my questions. I think it would be very difficult for the Auditor General to attain an over-all consolidated balance sheet showing not only the assets but the liabilities of the various crown corporations. I could not think of a worse example than the Bank of Canada. While it is true they hold a tremendous range of assets they are responsible in some nominal sense for all the paper currency issued in Canada. To try to interpret what a balance sheet of the Bank of Canada would mean would be quite a study for this committee.

Mr. HENDERSON: The statement of assets and liabilities, which is the key statement in the accounts of the government of Canada, does not purport to be, as I said the other day, a balance sheet, and certainly not a consolidated one such as you see in the case of large corporations with subsidiaries. It consists of a listing of all those assets which it has been the policy and the practice of successive ministers of finance to designate as assets and those which they deem to be liabilities of the government of Canada. That is the way the statement has developed over the years. The balancing figure between the two sides as you see is the net debt. A number of things have been omitted. There are no accounts receivable. Capital assets are in there at the nominal value of \$1. So, as you can see, there is considerable research and work to be done before we could expect to arrive at the Utopian situation of having a consolidated balance sheet reflecting all of the assets of the departments and crown corporations of the government of Canada and all their liabilities.

Mr. CAMERON (*High Park*): Could you tell me who owns the buildings which the Bank of Canada occupy?

Mr. HENDERSON: I believe they are owned by the Bank of Canada and are carried as an asset at cost on the balance sheet of the Bank of Canada. As I have explained we do not consolidate it.

Mr. CAMERON (*High Park*): I was wondering whether the Department of Public Works built these buildings for them.

Mr. HENDERSON: If they did, then the money would have been written off to expenditure because parliament would vote that money to public works.

Mr. CAMERON (*High Park*): Then the Bank of Canada is in possession of an asset for which they have not paid?

Mr. HENDERSON: That would be right.

Mr. HARKNESS: But that is not true in the case of the Bank of Canada.

Mr. HENDERSON: The Bank of Canada balance sheet indicates bank premises at cost less accumulated depreciation at something in excess of \$10 million.

Mr. HARKNESS: And that would be included in the rest fund.

Mr. HENDERSON: The rest fund is a part of the capital of the Bank of Canada. The \$25 million rest fund has not found its way onto the books of the government of Canada, and all the government of Canada carries on its books is the original \$5 million it subscribed and paid for the stock in the Bank of Canada. This is an interesting point, but we can only go so far with these cases. As I have said the statement of assets and liabilities of Canada is not a consolidated presentation. If it were then all these items would be included.

The VICE-CHAIRMAN: Have you a question, Mr. Stenson.

Mr. STENSON: My question is along the same line we have been discussing in respect of the Bank of Canada. Could we go back to the C.B.C. You say the assets of the C.B.C. are \$45 million. Is that the total they have in assets?

Mr. HENDERSON: The capital of the C.B.C. in terms of the conventional balance sheet sense does not consist of capital stock, bonds or anything of that kind. It is described as proprietor's equity; in other words, the investment the owner has in the business. And, in the case of the C.B.C. that figure over the years has reached a total of \$42 million. Up to 1958, when the present Broadcasting Act was brought in, loans had been made to the C.B.C., which I think at that time were of the order of some \$22 million odd, so the C.B.C. showed this at that time as owing to the government of Canada. However, these loans were completely forgiven and written off under the Act.

Mr. STENSON: How much has been written off in the last five years?

Mr. HENDERSON: Nothing has been written off. They credit whatever capital moneys they spend to the proprietor's equity each year.

Mr. STENSON: Then, \$42 million is all the assets they have in buildings, equipment and so on?

Mr. HENDERSON: This is a net figure, that is the assets less liabilities.

Mr. McLEAN (*Charlotte*): In respect of the Bank of Canada and their buildings, is it also not in the rental business as well?

Mr. HENDERSON: I can only speak from memory here because I am not the auditor of the Bank of Canada.

Mr. McLEAN (*Charlotte*): But, if they are going into the rental business should you not look into it to see whether these buildings are paying, especially when they are competing with private enterprise?

Mr. HENDERSON: It has not been my practice to address myself to such questions in respect of crown corporations of which I am not the auditor. The Bank of Canada employs private auditors and I do not have any responsibility in that regard. Under the Financial Administration Act it may be perfectly proper for me to ask just such a question as you have posed but I have not addressed such questions to the Bank.

Mr. McLEAN (*Charlotte*): Well, it is my understanding they are erecting these buildings all across Canada; they are very expensive buildings and they may not be paying. I do not think they are, unless they are charging themselves a great deal of rent. It seems to me this should be looked into.

The VICE-CHAIRMAN: If it is not the responsibility of the Auditor General to look into it perhaps we should make recommendation to whoever is responsible for such administration.

Mr. FRANCIS: I believe in some instances the Bank of Canada has acquired property in anticipation of its own needs, and such property is under rental by it until such time as the bank carries out its own construction program on those properties.

The VICE-CHAIRMAN: Is some of the property rented to the public works department?

Mr. FRANCIS: In some cases it is rented to private enterprise.

Mr. HENDERSON: I know the building in Montreal. The industrial development bank will be in it, as well as some accounting and legal firms. It is on Victoria square.

The VICE-CHAIRMAN: Are there any further questions? If not, we will proceed to paragraph 106, other loans and investments.

Mr. HENDERSON: Paragraph 106 follows:

106. *Other loans and investments.* The balances comprising this asset item at March 31, 1963, with the comparable balances at the end of the two previous years, were:

	1961 March 31,	1962 March 31,	1963 March 31,
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 631,127,000	\$ 659,936,000	\$ 693,998,000
Veterans' Land Act advances	199,644,000	207,953,000	224,486,000
Less—reserve for conditional benefits	33,552,000	30,598,000	28,467,000
	166,092,000	177,355,000	196,019,000
Loans to provincial governments	98,372,000	97,879,000	116,818,000
Balances receivable under agreements of sale of crown assets	12,094,000	10,622,000	8,303,000
Temporary loans to old age security fund	17,283,000		41,679,000
Loans to Unemployment Insurance Commission	67,000,000		
Other balances	43,683,000	48,071,000	53,838,000
	<u>\$1,035,651,000</u>	<u>\$ 993,863,000</u>	<u>\$1,110,655,000</u>

The following is a listing of the balances comprising the \$693,998,000 shown for the first item in the above table as at March 31, 1963:

Subscriptions to capital:

International monetary fund	\$577,250,000
International bank for reconstruction and development ..	80,483,000
International development association	24,927,000
International finance corporation	3,522,000
	<u>686,182,000</u>
Working capital advances and loans	7,816,000
	<u>\$693,998,000</u>

During the year ended March 31, 1963, Canada's subscription to the international monetary fund was increased by \$13 million, through the issue of additional non-interest bearing notes, as a result of revaluation of the Canadian dollar portion of the subscription based on the rate of exchange for the United States dollar at January 31, 1963.

The \$41,679,000 of temporary loans to the old age security fund at March 31, 1963 represented the deficit resulting from transactions up to that date in the special account provided for by section 11 of the Old Age Security Act, R.S. 200. The following is a summary of the transactions relating to the Fund during the past three years:

STANDING COMMITTEE

	1960-61	1961-62	1962-63
Collections of tax			
On sales	\$270,231,000	\$284,879,000	\$302,239,000
On personal incomes	229,400,000	258,950,000	273,650,000
On corporation incomes .	103,500,000	100,125,000	115,250,000
	603,131,000	643,954,000	691,139,000
Payments of pensions under the Act	592,413,000	625,107,000	734,382,000
Surplus or (deficiency) during the year	10,718,000	18,847,000	(43,243,000)
Preceding year's balance brought forward	(28,001,000)	(17,283,000)	1,564,000
Balance at credit or (debit) at year-end	<u>\$ (17,283,000)</u>	<u>\$ 1,564,000</u>	<u>\$ (41,679,000)</u>

The loans to the Unemployment Insurance Commission in 1960-61, on the security of government of Canada bonds, were repaid in full during the fiscal year ended March 31, 1962 (see paragraph 181).

The VICE-CHAIRMAN: Is my understanding correct that the document to which you have made reference will be printed as an appendix?

Mr. HENDERSON: Yes.

The VICE-CHAIRMAN: Did the members of the committee receive copies of that?

Mr. HENDERSON: I gave copies to the members who asked the question for their convenience when I came in and I would like to put them on the record, if I may.

The VICE-CHAIRMAN: Proceed.

Mr. HENDERSON: Mr. McLean asked a question in respect of a loan of \$300 million (U.S.) which Canada obtained from the international monetary fund in foreign currencies on June 27, 1962, and his question related to what interest was paid on that loan.

I can advise that under article V section 8 (a) of the Bretton Woods Agreements Act, Canada was called to pay a service charge which amounted to \$1,617,427, being at the rate of one half of one per cent. In addition, Canada was required to pay further charges amounting to \$1,041,020 in the fiscal year 1962-63, based on the average daily balance of Canadian currency held by the fund in excess of Canada's quota. These further charges pursuant to article V, section 8 (c) of the Bretton Woods Agreements Act, amounted to \$2,131,338 for the fiscal year ended March 31, 1964.

Mr. McLean's second question was in respect of what revenue Canada earns on its subscriptions to the international monetary fund, and he had reference to the figure of \$577,250,000 shown in the tabulation at the foot of page 69. In respect of that I would state that no revenue accrues to Canada on those subscriptions.

The VICE-CHAIRMAN: Are there any other questions with regard to paragraph 106?

Mr. McMILLAN: What amount of actual cash is put up with regard to these subscriptions?

Mr. HENDERSON: Some cash and some non-interest bearing notes, particulars of which are given in the public accounts. Mr. Long could give a reference to the page.

Mr. McMILLAN: Am I correct in assuming that there would be no interest because it is a subscription?

Mr. HENDERSON: There is generally no interest on these investments paid to any of the countries subscribing. I think it is just a service charge arrangement when trading in currencies.

The VICE-CHAIRMAN: If there are no further questions, paragraph 107 deals with securities held in trust.

107. *Securities held in trust.* The \$26,016,000 total of balances comprising this item in the statement is represented by securities held for the following accounts: contractors' securities, \$9,435,000; guarantee deposits in respect of oil and gas permits, \$6,515,000; guarantee deposits in respect of customs duties and excise taxes, \$4,226,000; securities held for pilots' pension funds, \$3,803,000; and other, \$2,037,000.

Mr. HENDERSON: This is just a reference to the composition of the figure of \$26 million which, as you will see, represents securities held by the Department of Finance under certain circumstances.

The VICE-CHAIRMAN: The next paragraph is number 108.

108. *Deferred charges.* The balances included under this heading at March 31, 1963, with the comparable balances at the close of the two previous years, were:

Unamortized portion of actuarial deficiencies—

	March 31, 1961	March 31, 1962	March 31, 1963
Canadian forces superannuation account	\$326,300,000	\$326,300,000	\$524,849,000
public service superannuation account	276,661,000	276,661,000	276,661,000
Royal Canadian Mounted Police superannuation account	602,961,000	3,533,000 606,494,000	3,533,000 805,043,000
Unamortized loan flotation costs	130,741,000	121,332,000	131,601,000
	<u>\$733,702,000</u>	<u>\$727,826,000</u>	<u>\$936,644,000</u>

The amounts appearing under the heading "unamortized portion of actuarial deficiencies" represent the balances of amounts set up in the accounts when bookkeeping entries were made for the purpose of increasing the balances at credit of the relative superannuation accounts, including an additional entry of \$198,549,000 in the Canadian forces superannuation account during the year under review. In paragraphs 124 and 125 the audit office view is again restated that these bookkeeping entries should not have been made and that, instead, the actuarial deficiencies should have simply been disclosed by means of a note to the statement of assets and liabilities.

The item "unamortized loan flotation costs" records the unamortized portion of the cost of discounts and commissions incurred in the issuance of loans. The following is a summary of the transactions for the year under review:

STANDING COMMITTEE

Balance, April 1, 1962	\$121,332,000
Add:	
Costs incurred in issuing new loans during the year ...	50,751,000
Adjustments due to cancellations, exchanges, conversions and additional issues of existing loans	2,214,000
	<hr/> 174,297,000
Deduct:	
Amortization charges included in 1962-63 Expenditure .	42,696,000
	<hr/>
Balance, March 31, 1963	\$131,601,000
	<hr/>

Mr. HENDERSON: Paragraph 108 deals with deferred charges, and here we see the composition of the unamortized portion of the actuarial advances which have existed over a number of years in the various superannuation accounts. I do not suppose it is necessary to take much time on this, Mr. Chairman, because we discussed this at rather considerable length when Mr. Bryce was a witness before the committee, and I outlined for the benefit of the members the statement made by the Minister of Finance in the house on March 6, last in respect of how he proposes to deal with this in the future, and I think generally the course of action proposed commended itself to you. You gave me an instruction to deal with the subject in my next report by outlining what steps had been taken. This is now under study.

The VICE-CHAIRMAN: The next paragraph is 109 and deals with suspense accounts.

109. *Suspense accounts.* The \$136,000 shown for this item on the assets side of the Statement represents the balance, unchanged during the year under review, of the cheque adjustment account, which reflects the total of the individual balances that remained unadjusted in the process of reconciling payments to the chartered banks for redemption of paid cheques with the relative amounts as subsequently determined. The balance includes amounts relating to the fiscal years 1942-43 to 1960-61.

Mr. HENDERSON: That is self explanatory.

The VICE-CHAIRMAN: Paragraph 110 deals with inactive loans and investments.

110. *Inactive loans and investments.* The \$94,824,000 shown for this item in the statement at March 31, 1963, unchanged from the two previous years, comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act	\$49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,854,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the government of China)	14,470,000
Loan to province of Saskatchewan, in 1908, for the purchase of seed grain	74,000
	<hr/>
	\$94,824,000.
	<hr/>

Mr. HENDERSON: This is a situation where these loans are carried on the books of Canada against the day when it might be possible to effect some form of collection. I think Mr. Bryce said a word about these when he was here.

Mr. HARKNESS: As you may recall, last year I brought up this question of a loan to the province of Saskatchewan in 1908 for the purchase of seed

grain and at that time I suggested there should be a settlement made in view of the length of time which had passed. I believe I stated it probably should be written off. Has any action been taken on that to date?

Mr. HENDERSON: I think not. But, I seem to recollect—and the minutes will correct me if I am wrong—that when Mr. Bryce was before the committee he explained that in accordance with their policy they are keeping this on the books in the hope that perhaps it might be possible to effect some collection.

The VICE-CHAIRMAN: Are these amounts questioned by the countries?

Mr. HARKNESS: No. This was a joint dominion-provincial scheme for people who purchased seed grain. As I recall it, all of these were written off sometime during the last year; in other words, I think we actually passed an act forgiving or writing off the debt of the individuals concerned. Of course, as you are well aware, most of these people have been dead for years.

The VICE-CHAIRMAN: Loans to China are mentioned here, and China is not dead.

Mr. HARKNESS: No. I am talking about the loans for the purchase of seed grain.

Mr. HENDERSON: I recall that Mr. Bryce did say that he was looking into this but I do not think we have the information at the moment. However, it is possible there might be some action taken on this by the time the public accounts ending March 31, 1964, are finalized.

Mr. STENSON: There are two loans here in respect of China, one in the amount of \$49,426,000 and the other in the amount of \$14,470,000. Are we not at the present time negotiating loans with China and, if so, has this debt ever been brought to their attention?

Mr. HENDERSON: I would think so. Mr. Bryce pointed out to the committee when he was here that it is not their policy to write off debts of this character so long as there is any possibility of recouping them. Perhaps if further loans are sought consideration would be given to loans such as these that have been outstanding for so long. I can assure you that in our experience the Department of Finance is never idle in bringing these matters forward at the appropriate time.

The VICE-CHAIRMAN: I presume that any new contracts which are made with these countries are made under different terms—or at least I would hope so.

Mr. HENDERSON: Well, we will have to cross that bridge when we come to it.

The VICE-CHAIRMAN: I will remember that when we cross that bridge.

Mr. McLEAN (*Charlotte*): Would this not be a loan to Chiang Kai-shek and not to modern China?

Mr. HENDERSON: I would assume it would be to the Nationalist regime.

Mr. STENSON: I do not feel the government of today would recognize those loans.

Mr. HENDERSON: I am not in a position to say that. From Canada's standpoint this money is still owing and I feel certain Canada can give a good account of herself in this respect.

Mr. HARKNESS: So far as the Ming Sung Industrial Corporation loan is concerned, to a large extent that represents ships which the Chinese are still operating. No doubt we would be paid for those.

The VICE-CHAIRMAN: Gentlemen, as it is now 11.15 the Chair will entertain a motion to adjourn.

Mr. CARDIFF: I so move.

APPENDIX

(Extract from PUBLIC ACCOUNTS, 1962-63—Appendix No. 12)

GOVERNMENT OF CANADA EQUITY IN CROWN CORPORATIONS
AS AT MARCH 31, 1963

Corporation	Recorded government equity \$	Unrecorded government equity \$	Total government equity \$
Agency—			
Atomic Energy of Canada Limited	53,258,320	2,902,714	¹ 56,161,034
Canadian Arsenals Limited	[*] 9,750,000	30	9,750,030
Canadian Commercial Corporation	9,500,000	399,177	9,899,177
Canadian National (West Indies) Steam- ships Limited	325,000	142,537	467,537
Canadian Patents and Development Limited	296,199	523,561	819,760
Crown Assets Disposal Corporation		100,000	100,000
Defence Construction (1961) Limited		30	30
The National Battlefields Commission ...		17,243	17,243
National Capital Commission	40,906,111		40,906,111
National Harbours Board	192,579,474	217,052,274	² 409,631,748
Northern Canada Power Commission ...	19,003,196	2,705,642	³ 21,708,838
Park Steamship Company Limited		5,287	5,287
	325,618,300	223,848,495	549,466,795
Proprietary—			
Canadian Broadcasting Corporation	3,000,000	6,000,000	9,000,000
Canadian National Railways	¹ 1,440,091,343	815,875,632	² 2,255,966,975
Canadian Overseas Telecommunication Corporation	49,320,747	8,599,652	³ 57,920,399
Central Mortgage and Housing Corpora- tion	1,802,806,097	64,525,002	¹ 1,867,331,099
Cornwall International Bridge Company Limited		—1,112	—1,112
Eldorado Aviation Limited		227,683	227,683
Eldorado Mining and Refining Limited ..	8,246,877	43,681,986	⁵ 51,928,863
Export Credits Insurance Corporation ...	34,954,896	7,895,599	⁴ 42,850,495
Farm Credit Corporation	268,968,099	1,670,563	270,638,662
Northern Transportation Company Limited		6,007,316	6,007,316
Polymer Corporation Limited	30,000,000	52,564,839	¹⁰ 82,564,839
The St. Lawrence Seaway Authority	390,888,009	—34,591,516	356,296,493
Trans-Canada Air Lines		8,816,596	8,816,596
	4,028,276,068	981,272,240	5,009,548,308
Other—			
Bank of Canada	5,920,000	25,000,000	¹¹ 30,920,000
Industrial Development Bank		15,925,486	15,925,486
Northern Ontario Pipe Line Crown Cor- poration	110,555,000	483,101	111,038,101
	116,475,000	41,408,587	157,883,587
	4,470,369,368	1,246,529,322	5,716,898,690
Total per schedule E—"Loans to, and in- vestments in, Crown Corporations" ..			
	4,468,119,368		
[*] Advanced from defence production re- volving fund recorded in schedule B— "Departmental working capital ad- vances and revolving funds"			
	2,250,000		
	4,470,369,368		

Unrecorded government equity represents the surpluses (less deficits), reserves, etc., of the Crown Corporations based on the financial reports of the corporations at their respective years ended coincident with, or immediately prior to, the fiscal year ended March 31, 1963.

The Government of Canada equity in Crown Corporations, as computed, excludes those amounts, which, although designated by certain Crown corporations as proprietor's equity, have been financed by the Government of Canada and charged to government expenditures, and have been fully expended in the acquisition of the Crown corporation's capital assets.

¹Including accrued interest, \$450,231.

²Including non-active loans charged to Net Debt, \$119,084,493.

³Including accrued interest, \$6,713.

⁴Including advances to Trans-Canada Air Lines re income deficits, \$4,595,577 and loans with respect to Yarmouth—Bar Harbour ferry service, \$763,684.

⁵Including Canadian National Railways no par value capital stock and investment in Canadian Government Railways charged to Net Debt, \$800,875,632.

⁶Including accumulated tax reduction applicable to future years, \$973,851.

⁷Including accrued interest, \$13,512,537.

⁸Including premium on acquisition of capital stock, \$1,660,797.

⁹Including accrued interest, \$505,893.

¹⁰Including deferred income tax, \$3,460,000.

¹¹Including premium on acquisition of capital stock, \$920,000.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 24

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

TUESDAY, NOVEMBER 3, 1964

WITNESSES:

From the Department of National Revenue: Mr. David Sim, Deputy Minister for Customs and Excise; Mr. R. C. Labarge, Assistant Deputy Minister for Excise; Mr. J. G. Howell, Assistant Deputy Minister for Operations; and Mr. A. R. Hind, Assistant Deputy Minister for Customs; and Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Gray,	Pilon,
Cameron (<i>High Park</i>),	Grégoire,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>),	Rock,
Crouse,	Leblanc,	Rondeau,
Danforth,	Legault,	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	Southam,
Fane,	Mandziuk,	Stefanson,
Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Grafftey,	Pigeon,	Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, November 3, 1964.

(38)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Danforth, Fane, Harkness, Leblanc, McMillan, O'Keefe, Nowlan, Regan, Rock, Southam, Stefanson, Stenson, Tardif, Wahn, Whelan and Winch. (19)

In attendance: From the Department of National Revenue: Mr. David Sim, Deputy Minister of National Revenue for Customs and Excise; Mr. R. C. Labarge, Assistant Deputy Minister for Excise; Mr. J. G. Howell, Assistant Deputy Minister for Operations; Mr. A. R. Hind, Assistant Deputy Minister for Customs; Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long and Crowley of the Auditor General's office.

The Committee resumed consideration of the 1962 and 1963 Reports of the Auditor General.

The Chairman tabled a memorandum from Col. W. T. Cromb, Chairman of the War Veterans Allowance Board, dated October 29, 1964, relating to his appearance before the Committee on October 29, 1964. This memorandum was ordered printed as an Appendix to the record of this day. (*See Appendix "A"*).

The Chairman also tabled a return relating to criminal prosecutions of the Department of Veterans Affairs, which was ordered printed as an Appendix to the record of this day. (*See Appendix "B"*).

Mr. Baldwin introduced, Mr. Sim, who introduced his assistant deputy ministers, Messrs. R. C. Labarge, J. G. Howell and A. R. Hind.

On paragraph 88 to 94 inclusive of the 1962 Report and 75 to 77 inclusive of the 1963 Report, Mr. Henderson reviewed these paragraphs and was examined thereon.

Mr. Sim and his officials were examined and supplied additional information to the Committee.

The questioning of the witnesses being concluded, the Chairman thanked them on behalf of the Committee.

At 11.15 a.m., the Committee adjourned until 9.30 a.m. on Thursday, November 5, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, November 3, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. Although Mr. Fane has stepped out temporarily, he assures me he is with us.

First, may I congratulate the committee on the excellent progress they made during the past week. I would like to extend personal thanks to Mr. Tardif as Vice Chairman for his courtesy and co-operation in presiding over two very excellent meetings which I understand you had.

A statement has been sent to me by Colonel Cromb, chairman of the war veterans' allowance board. As I understand the situation, he started on his statement, but questions commenced and before the meeting was concluded he did not have an opportunity to put the remainder of his statement on the record. For the purpose of convenience to members and others, I would ask for your agreement that his statement in toto now be put on the record as an appendix to our Minutes of Proceedings and Evidence for this day. Is that agreeable?

Agreed.

The CHAIRMAN: There is also a further letter from Colonel Cromb to which he attaches a letter addressed to himself by the director of legal services of the Department of Veterans Affairs. Apparently this is information which was requested at the last meeting. Is it agreeable that this also be placed on the record as an appendix to today's Minutes of Proceedings and Evidence?

Agreed.

The CHAIRMAN: Some of you will have noticed that on your cards giving notice of this meeting there is mention of a meeting at 3.30 p.m. This is in error. We had originally thought this would be desirable, but in the interval the Senate finance committee, having some indication that they require Mr. Henderson's presence before them, have asked him to appear this afternoon. For this reason we will not be having a meeting this afternoon. We will probably be free to go on until at least 12 o'clock today.

Mr. WINCH: The defence committee is meeting at 11.30.

The CHAIRMAN: Those who are free to stay can stay here in the hope that we can complete most of the proceedings. If not, then we can arrange, before we adjourn, to carry on probably on Wednesday.

Today we have with us the deputy minister of the Department of National Revenue, Mr. David Sim, and some of his officials. I do not think I need to say too much about Mr. Sim. He has been before many committees as well as before this committee. He has had a particularly long and distinguished record in the public service for almost 40 years, not only with this department but with the wartime prices and trade board during the war years. He has been a member of international delegations. He has had his service suitably recognized, and he has been one of the very top civil servants in this country. I am very pleased to introduce Mr. Sim to you. Later on, during the course of the proceedings, he will be calling upon some of his assistant deputies. While I am going to follow the usual procedure of calling first on Mr. Henderson for a general statement, before Mr. Sim starts to make his comments he might at that time introduce the officials whom he has brought with him.

You will notice on your card that there are a number of items going back to 1962 and 1963. I assume we might as well start on 1962 although some of these have been updated, I believe. You might like to start with the paragraphs dealing with the 1962 report.

The first paragraph is paragraph 88.

88. *Doubtful title to property in Newfoundland.* In paragraph 76 of last year's report reference was made to three crown-owned residences in Newfoundland which were taken over by the provincial government when they were vacated temporarily by customs and excise officers in January 1957 and October 1958. As previously mentioned, the Department of National Revenue was of the opinion that these residences were the property of Canada in accordance with sections 33 and 34 of the terms of union, but the province did not agree. The houses are still occupied by provincial officers.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, I might just say that not too many of the paragraphs have been updated and some of them since have been resolved, so that you will probably not wish to spend much time on those.

To take paragraph 88 first, which appears on page 39 of the 1962 report, this deals with doubtful title to property in Newfoundland. As you see, this paragraph refers to three crown-owned residences in Corner Brook, Newfoundland, ownership of which is still in doubt.

Following the union of Newfoundland with Canada, three residences in Corner Brook continued to be occupied by customs officials formerly in the employ of Newfoundland but who were transferred to the government of Canada following union. A fourth residence in the same locality occupied by a Newfoundland official was taken over in December 1956 by the Department of National Revenue through the issuance of an exchequer court writ of possession.

The department was of the opinion that all four residences were the property of Canada in accordance with sections 33 and 34 of the terms of union. However, when three of the residences, including the one which had been taken over by court order, became temporarily vacant in January 1957 and October 1958, officers of the provincial government took possession and the government of Canada has received no rental payments since these dates. The fourth residence continues to be under the control of the department and is occupied by an officer of the department who had been in the customs service of the province before union.

In the period since confederation and up to January 6, 1964, the total amount of rent collected from the four houses has been \$8,235. The department had expended \$15,733 for the upkeep of these residences to date and also has paid municipal taxes and water and sewage charges for the residences to the extent of \$1,705.

The department has had this matter under consideration by the Department of Justice. Perhaps Mr. Sim can bring the committee up to date in this regard.

The CHAIRMAN: Would you care to do that, Mr. Sim? We are now on paragraph 88 in the 1962 report. Possibly you might be good enough to introduce the officials who have come with you at this time so that committee members will recognize them, and if any questions come up which affects them particularly, please feel free to refer to them directly.

Mr. DAVID SIM (*Deputy Minister, Department of National Revenue*): I was hoping that you would call on me as soon as I listened to your very warm reception so that I could reply in appropriate terms. There is not quite the same warmth in the Auditor General's voice as I think I detected in the voice of the Chairman!

Just to indicate the importance we attach to this committee, I have fortified myself this morning by bringing with me the three assistant deputy ministers, and if it meets the convenience of the committee I will introduce each one of them in turn as they have the opportunity of helping the committee get at the facts of these individual cases.

The first paragraph dealing with the houses in Newfoundland will, appropriately enough, be dealt with by Mr. Howell.

Mr. Howell is a dividend to Canada from Newfoundland. We first met him when he represented Newfoundland in London at the meetings of GATT back in 1946-47 and appreciating that his was the sort of talent we should have in the federal service we were able to wean him away from the Newfoundland service.

Mr. Howell was educated at Dalhousie University, which I think will strike a friendly note in the hearts of some members of the committee. He entered the department of customs for Newfoundland in 1934, and in 1942 was appointed secretary, which is equivalent to a deputy minister. In 1945 he represented his then country at commonwealth meetings. We acquired him in 1949.

With no further introduction, I am going to ask Mr. Howell to explain to you why it is we have been unable to secure full possession of these houses under discussion.

Mr. J. G. HOWELL (*Assistant Deputy Minister for Operations, Department of National Revenue*): As the Auditor General has stated, there has been great doubt about these houses ever since April 1, 1949. This became paramount during the mid fifties, particularly when one of our officers vacated the house to give way to another officer coming in. At that moment one of the provincial officers entered the house, and we never could get him out afterwards.

This whole question was discussed and was under advisement by the Department of Justice for a considerable time. It was not until 1962, to be exact, that the whole situation changed in so far as we were concerned. At that time the deputy attorney general notified us that after having given considerable thought to the relevant matters which were available in the case, he came to the conclusion that Canada's chances of success were so slight that litigation would not be justified. He stated that the issue in any such litigation would be whether the buildings in question were at the date of union used primarily for service taken over by Canada within the meaning of term 33(j) of the terms of union.

At the very least, he stated, it would be necessary to establish that the nature of the service in question necessitated the provision of residences by the government, but there was nothing which in his opinion would satisfy a court that the nature of the customs service required the provision of a residence.

Subsequently, in July of this year, the solicitor for customs wrote to the deputy attorney general of Newfoundland advising him that as a result of the opinion given by the attorney general of Canada, the department was prepared to release to the government of Newfoundland all its right, title and interest, if any, in the four residences at Corner Brook and to execute a quit claim in respect thereof.

At the same time it was suggested that arrangements be made to provide for the continued occupancy of one of the Canadian customs officers at a rent payable commensurate with rents being paid by the occupants of the other residences—and that is to Newfoundland, of course.

Unfortunately, at this stage no reply has been received from the attorney general's office in Newfoundland, and that is where the question rests at the moment.

The CHAIRMAN: Are there any questions, on this item, which apparently still remains unresolved?

Mr. McMILLAN: Will we continue to pay taxes on them?

Mr. HOWELL: Only on the house occupied by the customs officer who is occupying one of these houses. The rental he pays is about three times that which the other officers pay.

Mr. LEBLANC: Mr. Chairman, what is the approximate value of the property?

Mr. HOWELL: Approximately \$60,000.

Mr. LEBLANC: Is that the value of each one or is that the value of the three?

Mr. HOWELL: That is the value of all four.

The CHAIRMAN: Are there any further questions?

There are apparently no further questions so I will ask Mr. Henderson to pass on to the next item, item 89.

89. *Release of goods under Customs Collector's permission.* Sub-section (1) of section 22 of the Customs Act, R.S., c.58, reads as follows:

"Unless the goods are to be warehoused in the manner by this act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unloading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer."

In addition, section 79 of the act reads:

"No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods."

Notwithstanding these statutory directions, it has been the practice of the department for many years to release perishable goods prior to the passing of a customs entry and payment of duty, providing the importer has posted a bond or security as a guarantee of payment of duty. The term "perishable goods" has gradually been extended and now includes a wide range of goods.

There seems little doubt that the practice being followed facilitates the clearing of goods through customs, and benefits both the department and the importer. However, sections 22 and 79 of the act quoted above appear specifically to prohibit what is being done and the act should be amended if the practice is to be continued.

Mr. HENDERSON: Paragraph 89, as you will see from page 39 of the 1962 report, deals with the release of goods under customs collectors permission.

We show here how section 22 of the Customs Act, which is quoted in the paragraph, is specific in requiring duties to be paid upon all goods entered inwards. Section 79, which is also quoted, is specific in prohibiting any deferment of payment of duties. Consequently, we in the audit office have taken the view here that the practice followed, however sensible and practical it may be so far as the entry of goods is concerned, should be made the subject of an amendment to the act and thereby remove any doubt as to the legality of the practice. I might mention that section 24 of the act, which is not referred

to or quoted in this paragraph, does contain a provision for sight entries, but to have invoked this would have required the importer to pay an amount of duty usually greater than the amount actually due, whereas under the collector's permission method the department is following here a deposit is made by the importer to cover all of his importations.

Mr. Chairman, I think that sums up the essence of this question.

The CHAIRMAN: Would you care to comment, Mr. Sim.

Mr. SIM: I am very grateful that the Auditor General used such terms as sensible and practicable in connection with his comment and I do not wish to say much more except to call upon Mr. Howell to elaborate.

Mr. HOWELL: Mr. Chairman, it seems abundantly clear from the Auditor General's remarks that whilst he feels that this practice is based on sound common sense and facilitates the clearance of goods, benefiting both the department and the importer, the practice is not strictly in accordance with existing legislation.

We in the department, whilst agreeing that the procedure is not specifically provided for, are of the opinion that sections 24 and 25 of the Customs Act give a legal base for the immediate release system in the same manner as for sight entries. In this connection I always like to refer to subsection (2) of section 2 of the Customs Act which states:

All the expressions and provisions of this act, or of any law relating to the customs, shall receive such fair and liberal construction and interpretation as will best ensure the protection of the revenue and the attainment of the purpose for which this act or such law was made, according to its true intent, meaning and spirit.

Under this system in force, which we incorporated several years ago as the result of the stepped up tempo of handling goods whereby importers no longer use large warehouses but, instead, inventory control, we have found ourselves in the position of having to deal with large quantities of goods over and over again.

Under the system in force the importer is required to present a pro forma entry, form C-9, together with security, the purpose of which is not primarily the deferment of the payment of duty, but rather to afford the opportunity for complete formal documentation to be presented under the protection of the security which may be in the form of cash, Dominion of Canada bonds, or guarantee company bonds.

The complete formal documentation must be produced to customs on the next business day following the release of the goods, thus liquidating the pro forma entry and release of the security. This has worked out both to the benefit of the department and the importer and in no case up to today have we had any difficulty in securing full payments under this system.

The CHAIRMAN: Thank you, Mr. Howell. Are there any questions or comments from any members of the committee in respect of this item? If not, have you, Mr. Henderson, any further comments you would like to make at this time?

Mr. HENDERSON: Well, there is no question, Mr. Chairman, that this is the most practical way of handling cases of this kind. I believe most of the cases occurring under this system are of a perishable nature. Am I not correct in this assumption?

Mr. HOWELL: Not necessarily. It did originate with perishable goods but in view of the fact that it was such a successful procedure we went into hard goods as well.

Mr. HENDERSON: The fact remains that this is one of several cases, which you will note, where it would seem desirable to amend the act to cover the practice, and that is the point I made in my note.

We are going to be dealing with three other cases, as you know, and I think the views of the committee on that point would certainly be very helpful to me and my officers.

The CHAIRMAN: Are there any questions or comments from any members of the committee in this connection?

Mr. CAMERON (*High Park*): Would Mr. Sim like to make any comment on the problem raised by the Auditor General whether or not in this case or the other cases amendments to the legislation or the regulations might cover the problem, and then everyone would be happy.

Mr. SIM: I think the point made by the Auditor General is well taken, Mr. Chairman. Sometimes what seems the sensible and practical thing to do must be done in advance with an intelligent appreciation or anticipation of what will follow by way of clear legislative authority. I think it would be appropriate for me to say now, because this point will arise in connection with two or three other items, that during the period under review and immediately antecedent thereto a distinguished member of the committee who happened to be the minister of national revenue was encouraging us to streamline our methods and to get rid of a good deal of the red tape so to speak as part of the sort of forward move which we had at that time. I think the Auditor General is fulfilling his office when he draws attention to this and any other item where for sensible and practical reasons something has been done which we anticipated the house would in due course clothe with appropriate legal authority.

The CHAIRMAN: Thank you, Mr. Sim. Might we now pass on to the next paragraph?

Mr. HENDERSON: The next item, of course, is paragraph 90, and it deals with "Sales of goods unclaimed at customs".

90. *Sales of goods unclaimed at Customs.* Section 23 of the Customs Act, R.S., c.58, requires that unclaimed goods

"shall be sold by public auction to the highest bidder, and the proceeds thereof shall be applied first to the payment of duties and charges, and the surplus, if any, after discharging the vessel's lien, or other charges for transportation, shall be paid to the owner of the goods or to his lawful agent; but if the goods cannot be sold for a sum sufficient to pay the duties and charges, if offered for sale for home consumption, or the charges, if offered for sale for exportation, such goods shall not be sold, but shall be destroyed."

Sometimes the addition of storage charges to the duties and taxes causes the total payable to be in excess of the value of the goods and in such cases the department, instead of destroying the goods, has been following the practice of waiving all or part of the storage charges, in order that at least the duties may be recovered. The practice has undoubted merit from the revenue point of view but an amendment to section 23 of the act seems desirable if it is to be continued.

In this paragraph section 23 of the Customs Act is quoted, and as you will observe it is again specific in that if goods are left unclaimed at customs which cannot be sold for a sum sufficient to pay the duties and storage charges, the goods shall be destroyed. As the note explains, the practice followed by the department is to return as much revenue to the crown as possible, and in such cases the practice has been to waive all or part of whatever storage

charges are applicable, in order that the duties at least may be recovered. There is no doubt in our minds that this has been a sensible and proper course to follow. Otherwise, if the goods were to be destroyed, as the act requires, then no revenue would be returned to the crown. Consequently this is another case where an amendment to the act might be called for if the practice is to be legalized.

Mr. SIM: The distinction is quite clear between the collection of duties and the collection of other charges. I would appeal to the staunch presbyterians here as to whether or not we should really throw away something of value. It would be very much against my nature to destroy anything which would bring in revenue to the crown. So this is the course we have followed. We are always careful to get the duty, and if we cannot get the duty, the goods must be offered for sale in the hope of getting it, or destroyed. But at the same time when it comes to our storage charges for warehousing, we might sharpen our pencils again with the hope of being able to secure something out of these goods, rather than to destroy them.

Mr. HOWELL: I think that is well answered.

The CHAIRMAN: Are there any questions?

Mr. TARDIF: If the goods are of any value, would the Auditor General not think that somebody could make use of them?

Mr. SIM: That is the very point made by the Auditor General. The law compels us, if we cannot get the duty and the charges, to destroy the goods. He takes a proper position that in these cases while sometimes we get the duty, we cannot get all the charges. I cannot think of many cases where we have destroyed goods. It is very much against our disposition to destroy anything of value.

Mr. FANE: Are changes like that in the act made by the Department of National Revenue, by the customs department, or do they have to be made by parliament?

Mr. SIM: They would have to be made by parliament.

Mr. FANE: It seems stupid to me to have a rule like that.

Mr. SIM: There is merit in the law which requires us to collect the duty. After all, parliament in its wisdom has said that imported goods should not be laid down here in Canada at less than the rate of duty based on the fair market value. If we acquire ownership of goods because people have left them with us when they did not wish to pay the duty, and we do not collect those duties, we would be obviously allowing the goods to become competitive with Canadian manufacturers, if they should enter into consumption in this country. This has a bearing on the tariff which parliament said should be applied.

Mr. FANE: Do you ever get a considerable amount, or just a little package or something, to which this paragraph 90 would apply? I am thinking of a carload or something like that.

Mr. SIM: There is very little. The great bulk of our importations are made in the ordinary way and the duty is paid.

Mr. FANE: It would only be a drop in the bucket?

Mr. STENSON: I wondered if the importers might use this, if the goods were to be sold less this duty, for dumping purposes?

Mr. SIM: There is a danger there, and the act is set up to provide against it. In other words, the act says to the customs officer that he must not let these goods get out of his possession without the payment of the duty. We do not feel that parliament is directly concerned about the payment of these charges, because these are made by regulations under the governor in council. They are

not provided for in the act. There is a little shadowy area here between something which is statutory and something which might be within the purview of the governor in council.

Mr. STENSON: If you had fresh fruit or vegetables in season here in Canada, would waiving this duty be a way of not protecting our own growers?

Mr. SIM: That is why I indicated that we would not under any circumstances allow goods to enter into consumption without the payment of duty, because it would be going against the will of parliament. But with the charges, we have been sharpening our pencils, and scraping a little bit off so we could get something for the goods rather than to see them destroyed. I really hate to destroy something which might be of some value.

Mr. SOUTHAM: While listening to the discussion of this item, and after looking at the recommendations as set forth by Mr. Henderson, I have come to the conclusion that they are based on the purpose, as the deputy minister pointed out, of getting possible amending sections to the act.

Mr. RECAN: Mr. Sim, I wonder whether it would not be possible in these instances to have the goods returned to the country of origin and disposed of at some profit to the crown. They certainly would not then be entering into competition with Canadian goods. Let us say that the goods came from the United States. Once they have reached Canadian customs, may they not be returned to the United States without having to pay American customs?

Mr. SIM: Oh, yes, they could be returned under the heading of United States goods returned without being advanced in value. But I would not like the committee to get the impression that we are dealing with a large volume of stuff. Indeed, if there was any substantial volume of goods on which we could not get the duty even, we would be faced with the prospect of destroying them. I think that to return them is a better alternative than to agree to their destruction. Actually that problem has not arisen because in the main, so far as I can recall, all goods have been properly cleared, and we have been able to get the duty and something towards the charges, prescribed by the governor in council.

With respect to the charges, for many years storage in the Queen's warehouses was at a rather nominal rate. Then we suddenly found that we were getting a lot of goods stored in our Queen's warehouses, so we increased our storage fees. But by doing something to bring our warehousing charges into line with good business practice, we have tended to create something of a problem for ourselves when we have to collect the duty plus these higher charges. This is really not a big item in our economy. It is a small matter. And if there should appear to be any increase, we would take note of what the Auditor General has suggested here concerning disposing of it. It might be better to have an enabling clause in the law to enable us to do this in a legalized way so that no question would be raised, as the Auditor General suggests.

Mr. WHELAN: Suppose something is seized at Windsor which has entered the country illegally. Would it be sold at Windsor or at Toronto?

Mr. SIM: I think our practice is to take such goods to a central marketing point where it is worth while to do so. I believe that goods from the Windsor area would be sent to Toronto.

Mr. WHELAN: They would not be put up for sale at Windsor?

Mr. SIM: No.

The CHAIRMAN: Thank you. I think we have had a good discussion of this matter. Now, let us turn to paragraph 91.

91. *Duties and taxes on surplus United States government property sold in Canada.* By international agreement United States government

property located in Canada which becomes surplus to requirements is disposed of by Crown Assets Disposal Corporation on behalf of the United States government. Much of this property came into Canada without payment of duties or taxes and therefore becomes subject to the applicable duties and taxes when sold in Canada. Because of the great variety of goods and materials, frequently located in remote areas, it is considered administratively impracticable to apply the customs tariff and the normal customs appraisal procedures to these sales. The Department of National Revenue accordingly annually establishes a composite rate (currently 15.25 per cent) which is applied to the proceeds of all sales of the United States government property by Crown Assets Disposal Corporation, the rate being based on the average rate of duty on all imports from the United States for the last completed year for which statistics are available.

The practice being followed seems to be a practical way to meet the problem but, as there is no statutory authority for the establishment of such a composite rate, even with the approval of the governor in council, authority should be provided by parliament if the practice is to be continued.

Mr. HENDERSON: This paragraph refers to duties and taxes on surplus United States government property sold in Canada. Again it describes the manner in which the department each year establishes a composite rate, which is applied to the proceeds of all sales of United States government property by Crown Assets Disposal Corporation, the rate being based on the average rate of duty on all imports from the United States for the last completed year for which statistics are available.

Here we have another case where the practice being followed seems to be the practical way in which to meet the problem. However, I have to point out to you that there is no statutory authority for establishing a composite rate like this. Again, if the practice is to be continued, it would seem to us that authority should be provided by parliament through an amendment to the Customs Act.

Mr. SIM: May I introduce at this time Mr. A. R. Hind, deputy minister of the Department of National Revenue for customs. Mr. Hind was born at St. Thomas, Ontario, and he attended the University of Western Ontario where he graduated with honours in business administration. He joined the department in 1929 where he served as investigator of values in Germany, elsewhere in Europe, and in the United Kingdom until 1938 when he was brought back. He has served on the Canadian delegation to GATT, and in 1959 he was appointed to his present position.

The CHAIRMAN: Now, Mr. Hind.

Mr. A. R. HIND (*Deputy Minister, Department of National Revenue, for customs*): Mr. Chairman and gentlemen, under the terms of note 140, which represents an agreement entered into by Canada and the United States, Crown Assets Disposal Corporation is authorized to sell surplus United States government goods located in Canada. These goods have been used generally in defence installations which are of mutual interest to the two countries. They are sold to the highest bidder, and under the agreement, the selling price is deemed to include duties and taxes. Crown Assets Disposal Corporation remits a certain percentage of this selling price to the Department of National Revenue as representing such duties and taxes.

The situation created by note 140 should not be confused with normal importations, where goods are presented to qualified customs officers, who have facilities for rating and valuing them in accordance with the customs statutes. In the case under review, the goods are often located in remote and inaccessible

areas, such as D.E.W. line sites and other places in Labrador, the far north, and so on. In addition, a great variety of goods is involved. This combination of circumstances makes it practically impossible to appraise in a normal way. To accomplish the latter would involve a great expenditure of money, which would seem to constitute a waste of public funds. Consequently, a composite rate, representing duties and taxes, using as a basis, the average rate of duty on imports from the United States for the last completed year for which statistics are available, has been established.

The Auditor General points out that while this practice seems to be a practical way to meet the problem, the fact remains that there is no statutory authority for the establishment of such a composite rate. In the circumstances, he suggests that parliament should provide such authority if the practice is to be continued.

The sale of surplus United States government goods in Canada is relatively limited, and is expected to diminish as time goes on. While technically, there does not appear to be any specific authority for departmental action, beyond the general responsibility imposed upon us by the Customs Act and the Customs Tariff Act, it is wondered if, in view of the peculiar nature of the problem and its very narrow coverage, discretion might not be left with the administration to develop a composite rate as has been the practice in the past.

The CHAIRMAN: Thank you, Mr. Hind. Are there any questions?

Mr. DANFORTH: I would like to ask if the 15.25 per cent rate is payable on the sale price of goods as they are disposed of, and not on the estimated value when they came into the country?

Mr. HIND: The 15.25 per cent is payable against the selling price of the goods.

Mr. DANFORTH: This is a diminishing problem at the present time, and there will probably be less and less goods for disposal.

Mr. HIND: Yes, sir.

Mr. LEBLANC: You say that the 15.25 rate is arrived at in what manner? Is it on the basis of the average rates?

Mr. HIND: Yes, sir. We develop the average rate of duty of all imports from the United States, both dutiable and free of import duties. This, plus the element of sales tax, gives us a composite rate of 15.25 per cent.

Mr. LEBLANC: Would that rate vary much?

Mr. HIND: Astonishingly enough, the rate does not vary within a very great margin. We have found that it remains reasonably static. It is true that there are changes in individual rates of duty from year to year. But we have found in general that the average has remained pretty constant.

The CHAIRMAN: Are there any further questions? If not, let us pass to paragraph 92.

92. *Determination of "sale price" for sales tax purposes.* In paragraph 59 of the 1960 report, reference was made to the requirement of section 30 of the Excise Tax Act that sales tax be calculated on the "sale price" of goods produced or imported into Canada, with certain stated exemptions, and it was noted that for some classes of goods sold under certain circumstances to other than wholesalers, the Department of National Revenue had authorized the manufacturers, by regulation, to compute the sales tax on less than the actual sale price. We expressed the opinion that specific authority by parliament is required if the tax is to be computed on less than the sale price of the goods.

The public accounts committee considered the matter during its sittings in 1961 and included in its fifth report of that year (paragraph

56) the recommendation "that the existing method of valuation be provided with statutory sanction".

No action has yet been taken to provide the statutory authority thus recommended. However, the royal commission on taxation established on September 25, 1962 has terms of reference sufficiently broad to permit consideration of this matter.

Mr. HENDERSON: Paragraph 92 deals with a rather larger and more difficult problem, namely, the determination of "sale price" for sales tax purposes.

Section 30 of the Excise Tax Act requires sales tax to be calculated on the sale price of goods produced or imported into Canada with certain stated exceptions. In the report of the Auditor General for the fiscal year 1945-46 it was drawn to the attention of the house that for some classes of goods sold under certain circumstances to other than wholesalers, the Department of National Revenue had authorized the manufacturers, by regulation, to compute the sales tax on less than the actual sale price.

No action appears to have resulted from this until 1955 when it will be recalled a sales tax committee was appointed to review and advise upon certain technical questions relating to the administration of the sales tax. The committee made its report on January 12, 1956 and in its report pointed out that "the act does not appear to authorize the minister to vary actual selling prices or to impute wholesale prices when they do not exist". It is apparent that without such authority and general rules as to determination of value there can be no useful right to appeal. The committee recommended that "the existing scheme of valuation be continued for the present with statutory sanction".

I brought this matter to the further attention of the house in my 1960 report. I pointed out that sale price is the amount charged to the buyer and there is no provision for deviation. On discussing this matter with the departmental officials, I was advised that they rely on the general authority given in section 38 of the Excise Tax Act which is the fairly standard one reading as follows:

The Minister of Finance or the Minister of National Revenue, as the case may be, may make such regulations as he deems necessary or advisable for carrying out the provisions of this act.

This led me to state that in my opinion specific authority by parliament is required if the tax is to be computed on less than the actual sale price of the goods. Your committee examined this matter during its 1961 session and in paragraph 56 of its fifth report 1961 made the recommendation "that the existing method of valuation be provided with statutory sanction".

There has been no action taken on the matter since although Mr. Sim may have some further information to give to the committee.

The CHAIRMAN: Now, Mr. Sim.

Mr. SIM: This gives me the opportunity of introducing my third colleague, Mr. R. C. Labarge, M.B.E., one of the few civil servants born in Ottawa. He was educated at the La Salle Académie here, McMaster University, Oxford University, and he served for a while in the wartime prices and trade board where I first met him, although I had known his father for many years, a distinguished citizen of Ottawa.

Mr. Labarge spent three years in the navy, and retired with the rank of lieutenant commander. He became private secretary to the Minister of National Revenue and in due course he was appointed to be general executive assistant. In 1957 he became assistant deputy minister of customs, and later in the same year, assistant deputy minister for excise. Mr. Labarge will lead off in this subject, and if there is anything more required, I should be glad to follow on.

Mr. R. C. LABARGE (*Assistant Deputy Minister, Department of National Revenue, for excise*): This again is hardly a recommendation that the department would disagree with, even if it had in mind that the present form of law is sufficient and adequate for its purposes. Our belief is that the more clarity and certainty there can be in legislation for both the taxpayer as well as for the department, the more we are all in favour of it. Historically, the practice is to equalize the value for tax purposes. Normally it is the actual sales price of the goods differential that is equalized as in this instance where the manufacturer sells to a wholesaler a certain product at a price, and he also sells the same product to a retailer, the selling price would be higher in the latter instance, and consequently the tax would be heavier. This was foreseen at the very beginning of our sales tax law, and in 1923 it was even the subject of a proposed amendment by Mr. H. H. Stevens. It was the feeling of the minister of finance at that time, and he gave it as his opinion to the house, that section 13, which is now covered in sections 31 and 38 of our act, was sufficient to authorize the department to carry out its equalization of the sale prices for tax purposes.

I can say, therefore, that for a long time before the question was raised in the committee, the department followed what it believed to be a legal position. There is no doubt that this equalization is a vital and essential part of the administration of a fair sales tax. The drafting of legislation, in my opinion, is not as simple as it might appear to be. It is simple to give authority to the minister to equalize or to arrive at a wholesale price. But I think Mr. Henderson has indicated that there is another feature to be attached to it, namely, the right of appeal. It is in this area where I have found lawyers and legal minds having some difficulty in devising a form of appeal which can only be based on a comparison with competitors. It calls, therefore, for the revealing by one competitor to another the conditions under which he makes his sales and discounts,—his pricing structure, and so on. All I can say is that there has been a considerable effort put into drafting this same law. It has not got to the house in the form of proposed legislation. The problem is now being studied very carefully by the royal commission on taxation, and I would not be surprised if there was hope that they would come up with a helpful suggestion for amendment.

The CHAIRMAN: Thank you, Mr. Labarge. Mr. Winch indicated some time ago to me that this was a matter in which he was considerably interested, and he asked if he could be given an opportunity to deal with and to make a comment on it. I see no reason why this should not be done, therefore, Mr. Winch.

Mr. WINCH: I appreciate your courtesy and the courtesy of this committee. This is a matter which has puzzled me for a considerable length of time, especially the attitude of the department, as I understand it, in the past, and which has now been confirmed by the previous speaker. The department takes the view that their action is legal. I am not in any way criticizing or condemning the principle or practice. But the point which I think is of major importance to the committee is whether or not there is any statutory authority, and if there is not, then should it not be provided. As a result of my investigation, I have found that this practice has been in vogue for a great many years, even long before 1945.

If we take the act as we have it at the present time, and as has been pointed out by the Auditor General, we find that under section 30, it is very specific that there shall be a levy imposed and collected of 8 per cent on the sale price of all goods. That is, there are two objectives outlined, but nowhere can I find under section 30 a statutory authority for the practice of deviating from the sale price of all goods, or of changing the meaning of sale price. So we find that the department has been following what is now section 38 where also, as was pointed out by the Auditor General, the minister of finance or of national revenue as the case may be, may make such regulations as he deems necessary or advisable to carry out the provisions of this act.

My studies have shown that many, many years ago a circular stated this was done under the authority of the act, and then it was changed. I do not know the exact year. But now the circular states—just to use an example, because it is a fairly recent one, 1959, and is signed by Mr. Sim—that the minister of national revenue has been pleased to establish the following regulation under the authority of section 38 of the Excise Tax Act. And then in the circular it says that manufacturers of furniture may account for the sales tax on their sales directed to the users, calculated on the sale price less a discount of 25 per cent. There has been a change in the numbering of the sections in what we refer to now as sections 30 and 38, but the wording is unchanged over the years.

Now, I find that although this practice still is followed, there have been two court opinions to the effect that there was not the authority to so interpret the word "regulation", and that the practice of the department was ultra vires of the statute. This goes back, so far as court opinions are concerned, to 1928, and appears in the Dominion Law Reports of 1929. There is the case of the *Attorney General of Canada v. Coleman Products Company*.

The CHAIRMAN: Could you give us the actual citation?

Mr. WINCH: It is 1929, 1 D.L.R. and you will find what I am referring to now at page 660. There is this comment dealing with the powers of the minister:

"The power of the minister to make such regulations as he deems necessary or advisable for carrying out the provisions of this part," does not authorize and empower him to declare what the term "sale price" means as used in section 19ccc. I am, therefore, of the opinion that regulation 6 does not enter into the consideration of this matter at all. I think it would be ultra vires of the minister to make any regulation that would vary or modify or affect the positive declaration of the statute itself. The regulations I take it are solely to point out the means by which the act is to be enforced, not to place an interpretation or construction upon the act itself.

There you have the opinion of the supreme court in this case in 1928.

Again, you also have a case in 1941. This is the case of *Rex v. Weir-Manufacturing Company Limited*.

The CHAIRMAN: Would you give the citation for that?

Mr. WINCH: It is in the county court in British Columbia and it is a judgment by Lennox, C.C.J. It must be in what you refer to as Dominion Law Reports, pages 802 and 803. Here is what was said there:

Section 99 of the act provides that the Minister of Finance—

I am giving that, although the section number is changed—

—or the Minister of National Revenue may make such regulations as he deems necessary or advisable "for carrying out the provisions of this act", but it was submitted, and I think properly, that this does not permit regulations which would alter the basis on which the 8 per cent tax is to be paid, namely, "the sale price". No doubt the department found that hardships arose out of a strict adherence to the provision of said section 86 (1) but, if so, that would be reason for altering or amending the act and not for bureaucratic dogmatism.

Then on page 802 in small type, on the same point and dealing with the sale price of all goods, it says:

The Minister of National Revenue was authorized by section 99 of the act to make regulations "for carrying out the provisions of the act",

but this did not give him authority to make regulations which would alter the basis on which the tax is to be assessed. The circular in question probably represented an *ultra vires* ruling by the minister.

Going back to 1929, on this question of the interpretation and use of the section called regulations, and the fact that both courts have expressed the opinion that the practice was *ultra vires* of the powers of the minister or the deputy minister, I believe, because surely these cases must have come to the attention of the department, we have the right to ask why, in 1964, we have not had presented to the house the necessary amendment to legalize what I understand is basically a good and required practice.

It was these points which I wanted to bring to your attention and ask why, after all this length of time, the question of legality, from the point of view of the department, still remains in respect of a practice which the courts have ruled is *ultra vires*.

The CHAIRMAN: Would you like to deal with this, Mr. Sim?

Mr. SIM: I think I should make it clear that this is not the sort of bureaucratic activity that bureaucrats welcome. This is the sort of job which is fastened on an unwilling public servant, requiring him to breathe life into the statute. In this case, from the inception of the tax, as was so thoroughly pointed out by Mr. Winch, there has been a provision that the tax would apply on the selling price of goods.

As pointed out by Mr. Labarge, if this were followed just in those terms, an inequality would exist and the tax really would have been unworkable, because you would have been collecting two or three different rates of taxation on the same kind of goods entering into consumption.

Of course, the question of whether or not it is legal is a problem for the lawyers. Mr. Winch and I both are in the happy position of being laymen, and we perhaps are not as well qualified to discuss the legal position as are others. I will not pretend to argue the legality of it, except to say that the matter of the finding of a cure for this has been the subject of intensive study by myself and by officers of the Department of Justice. The royal commission to which the Auditor General referred struggled with this problem and did not come up with much in the way of a solution. As I understood the solution proposed by Mr. Winch it is to put a blessing of some kind on the present practice.

Mr. WINCH: I fully recognize what would happen as a result of following this practice, but I think it is accepted that a department or an individual can do only what the statute authorizes. For the life of me, I cannot understand why when, as I already have pointed out, you have the judgment of the court on this, you have not asked for the statutory authority to clarify the situation and regularize it.

Mr. SIM: The committee should understand that right from the inception of the tax the minister of finance said the department would do the very thing we are speaking of. He said the Department of National Revenue has the authority to do it under the statute. Mr. Fielding, a man greatly respected in the maritime provinces, chose to believe this was what we had to do, and we followed that ever since. When a practice has been going on for a good many years, it acquires a certain amount of respect. I should say quickly that this is not the kind of job officials of a department welcome. Had it not been for the integrity of the people who had to do with this tax over the years, we might have had a very different story in respect of it. As it has worked out, it has been a very profitable tax. Today our collections are running in the order of \$1,700,000,000.

I do not want to suggest there is no substance to the argument made by Mr. Winch. The difficulty has been to try to find some solution which would be acceptable to everybody. It might not be good enough, perhaps, to provide a continuing statutory authority for what we are doing. There might be a body of opinion in the country which might say this is not the kind of responsibility which ought to be fastened onto the civil service and that it ought to be spelled out in a different fashion. I am extremely hopeful, as I think perhaps the Auditor General is, that out of the royal commission inquiry there will come something to help us so that we can come before parliament and, whatever argument there may be in respect of the legality or otherwise of the practice we have been following, our actions will be sanctified, or some other formula evolved to take the responsibility from the civil servants who have been carrying the load for so many years.

The CHAIRMAN: Are there any questions on this very interesting point? If not, may we proceed to paragraph 93.

93. *Reporting of remissions.* Section 22 of the Financial Administration Act empowers the governor in council, on the recommendation of the treasury board, "whenever he considers it in the public interest", to remit any "tax fee or penalty", and further provides, in subsection (8) that:

"A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the public accounts."

Since this act came into force in 1952 it has been the practice to report remissions with an annual total of \$1,000 or more in the form of a listing of names of recipients and annual amounts in the public accounts. This is a continuation of the practice previously followed by the Auditor General pursuant to the requirement contained in the Consolidated Revenue and Audit Act, 1931, that "the Auditor General shall call attention to every case in which . . . a refund or remission of any tax, duty or toll has been made on the authority of any act of parliament".

This was used as a precedent but we believe that subsection (8) of section 22 of the Financial Administration Act, quoted above, in calling for "a statement of each remission" (a "statement" was not called for by the earlier act) contemplates the inclusion of a comment giving the particulars with respect to each remission—as is presently done in the cases of remissions to charitable, educational or other non-profit organizations. We feel that explanatory statements are essential if parliament is to have a clear understanding of the nature of the remissions.

An illustration of the inadequacy of the present method of listing remissions is given in the following paragraph.

Mr. HENDERSON: Paragraph 93 in the 1952 report covers the subject of reporting of remissions, and the comments contained in this paragraph dealt with our concern as to the adequacy of the information appearing in the public accounts supporting remissions of duties and taxes, fees and penalties under section 22 of the Financial Administration Act.

Members of the committee may recall from an earlier discussion of this comment that I advised the committee that the department took steps effective with the public accounts for the fiscal year 1962-63 to provide more complete information with regard to each of the remissions made. Consequently, it can be regarded that this comment has been taken care of and therefore perhaps the members of the committee will not feel there is any point in discussing the matter again at this time.

I might add that Mr. Sim and his associates in the Department of National Revenue produced a greatly improved presentation in the public accounts last year, and you may have noticed this. We appreciate their co-operation on this point.

The CHAIRMAN: You have further reported this in paragraph 75 of the next year's report.

Mr. HENDERSON: Yes. I think we could pass that one also.

The next is paragraph 94 in the 1962 report.

94. *Remission of sales tax on oleomargarine.* At the time of the negotiations leading up to the entry of Newfoundland into confederation in 1949, the following undertaking was given to the Newfoundland delegation with respect to sales tax on oleomargarine:

"The Canadian government will be prepared to submit to parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada."

There has been no such legislation but the governor in council, on the recommendation of the treasury board, has followed the practice of remitting, under the authority provided by section 22 of the Financial Administration Act, the sales tax on all oleomargarine sold in the province of Newfoundland.

The remissions thus granted, when in excess of \$1,000 in a year for each manufacturer, are included in the public accounts' listing of remissions (Public Accounts, Volume II, section 37), referred to in the preceding paragraph, under the names of the manufacturers concerned, but there are no statements to indicate that the remissions are in respect of tax on sales of oleomargarine in Newfoundland. In other words, there is no indication that the discretionary authority provided the executive by the section referred to above has been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

This deals with remission of sales tax on oleomargarine.

This note in my 1962 report pointed out how remission was being made of the tax on sales of oleomargarine in Newfoundland, in other words there was no indication from the information provided in the public accounts that the discretionary authority provided the executive under section 22 of the Financial Administration Act was being used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

The subject matter here was discussed in the committee on June 11 of this year (see page 136 of the Evidence). Subsequent to this discussion, the committee when presenting its fourth report 1964 expressed its concern on learning that the undertaking given in 1949 (at the time of entry by Newfoundland into confederation) had not been carried out. In expressing itself on this subject under paragraph 23 of that report, the committee noted that instead of the undertaking having been carried out, the authority provided to the executive by section 22 of the Financial Administration Act had been used to render this tax, applicable elsewhere in Canada, completely inoperative in one province, and went on to say that it did not consider that section 22 of the Financial Administration Act should be used in this way.

As Mr. Sim is with us today, you may wish to take the opportunity to obtain his views on this procedure which is still continuing at the present time.

Mr. SIM: I will ask Mr. Labarge to lead off. If he needs any help I will be glad to come to his assistance.

Mr. LABARGE: In view of the fact that I interpreted this as being in respect of our department and a question of properly reporting a remission, so that

it could be clearly understood why it was made, I thought we had fulfilled our part in this. In respect of who should take the initiative for amending the Financial Administration Act, or the given authority, I was not expecting this would be a question raised of this department.

Mr. HENDERSON: Well, Mr. Chairman, I think the committee might wish to invite the representatives of the department to make some comment on their statement that they did not consider section 22 of the act should be used in this way. Admittedly this is something which is decided by the governor in council, perhaps, rather than by the department itself, but on the other hand, the department lives with this problem and, in fact, makes such recommendations to the governor in council. This was part of a general study we have been carrying out applicable to section 22.

Mr. SIM: We must not, of course, confuse the department with the governor in council. It seems to be a matter of policy for the government to decide whether it would be desirable to provide a statutory provision for this matter, or do it by order in council. There is no question about it, the tax must be remitted. We have a first class witness in Mr. Howell who had an active part in the confederation arrangements in Newfoundland. This is one of the terms of confederation of which Newfoundland made a very strong point. This just had to be done one way or the other. I do not think any question is raised in respect of the legality of doing it under the Financial Administration Act. Section 22 of the Financial Administration Act is very properly drawn in terms which gives the governor in council wide powers to do things. This is the policy which succeeding governments have followed; that is, doing it by order in council. I do not think it would be proper for me to comment on the appropriateness of the authority for taking this action.

The CHAIRMAN: Are there any questions on this item? As I understand it, Mr. Sim, your position is this is to be done and the only available instrument, whether it is the best instrument or not, is the utilization of section 22 of the Financial Administration Act, and from a departmental point of view you have no alternative.

Mr. SIM: It seemed to be such a small price to keep Newfoundland in confederation.

Mr. WHELAN: This means there is no tax on oleomargarine in Newfoundland?

Mr. SIM: Yes.

Mr. WHELAN: Oleomargarine is made in Canada and Canada is the only country which allows the importation of cheap fish oil from South America, mainly, to be used in the production of margarine. I know it is not allowed in the United States. In the United States the oil is refined after it is brought in. Of all the provinces which should want a tax on this cheap product which is coming in, Newfoundland should be the first, because it is a great fishing country. I understand this fish oil comes mainly from Peru, and one or two other coastal countries there. The people who produce it earn about \$40 a year in our money, which is strictly slave labour. This product is being brought in and used in the manufacture of margarine in Canada without any tariff on it, I understand.

Mr. SIM: Mr. Chairman, margarine is not produced entirely from fish oil.

Mr. WHELAN: No, but we use more of it in Canada.

Mr. SIM: I believe margarine is the alternative open for many low income families, especially those with many children. I think Mr. Howell who is responsible for this should say a word about it.

Mr. HOWELL: As a matter of interest, margarine was made in Newfoundland by two companies, each of which was known as a butter company. In my

home they used margarine for cooking and butter for table use. However, if you walked into a store in St. John's back in the 1930s and 1940s, you would have found margarine advertised as butter and a Canadian, New Zealand or Australian butter would be advertised as table butter. This is the whole distinction. As a matter of fact, the Newfoundland Butter Company had to change its name on April 31, 1949, for the very reason that it was not butter.

The point I would like to make is that oils for the manufacture of margarine in Newfoundland prior to confederation were imported and, of course, had to be entered through customs. There were various grades of margarine manufactured there and only in one of them, the cheapest grade known, was fish oil used; in all the others it was either peanut oil, soya bean oil, and so on. In only one was fish oil used. So, I doubt whether today very much fish oil is used in the manufacture of margarine in Newfoundland. Certainly if it was they would want to use their own after it had been properly refined.

In looking at the accounts here for 1962-63, I find that by far the most of the margarine in Newfoundland is produced by the Newfoundland Margarine Company of St. John's, which has about 85 per cent of the total consumption as against a balance of about 15 per cent from others such as Canada Packers, and so on.

Mr. WHELAN: In going through a brief presented by the soya bean growers, I see they state—and I am not speaking of Newfoundland particularly—that margarine manufacturers are using more imported fish oil than they ever did before.

Mr. REGAN: This may be a trend, because as I understand it, on the coast of Peru in recent years they have developed the art of catching these small fish which go by there in phenomenal quantities. The climate is such that no buildings are required and they have outside plants. Wages are extremely low. Without even leaving the shore it is possible to catch great quantities of these fish. As a consequence, the cost has gone down a great deal and I think more fish oil from the Peru area is being used in recent years for margarine. In addition, this has resulted in a serious situation in the fertilizer business and in the business of by-products of Canadian fishing.

The CHAIRMAN: I should point out, gentlemen, that this is an historical background to the introduction of the act of confederation in respect of this particular section, but it is not strictly speaking a subject for discussion by this committee.

Mr. DANFORTH: Mr. Chairman, I would be curious to know whether the figures are available which would give us some idea of the amount of money involved in this remission in any one year.

Mr. SIM: It is reported annually?

Mr. HOWELL: In the public accounts for 1962-63 it is \$388,820.

The CHAIRMAN: If there are no further questions, might we go on to the next paragraph?

Mr. HENDERSON: We will now turn to the 1963 report. The first paragraph there is paragraph 75 which deals with the reporting of remissions.

75. *Reporting of remissions.* In paragraph 93 of last year's report reference was made to the requirements of the Financial Administration Act with regard to the reporting of remissions. We expressed the opinion that section 22 of the act in calling for "a statement of each remission" contemplates the inclusion of a comment giving the particulars with respect to each remission—as was being done in the case of remissions to charitable, educational or other non-profit organizations.

As an illustration of the inadequacy of the method of listing remissions, reference was made last year in paragraph 94 to the sales tax on oleo-margarine which, by the use of the remission process, was being rendered inoperative in the province of Newfoundland without this being indicated in the listing of remissions included in the public accounts.

The Department of National Revenue took note of this observation in last year's report, and remissions granted in 1962-63 are being reported in greater detail than in previous years, with explanations enabling the reader to determine the manner in which the remission prerogative was exercised.

Mr. WINCH: Paragraph 75 is on the same subject as paragraph 92 in the 1962 report, and I have another question. Irrespective of the decision by the Department of Justice or of the Minister of Finance, even going back to Mr. Fielding, in respect of the legality of the interpretation of the regulations, there has been a review and a statement made by the Supreme Court of Ontario to the effect that the interpretation is *ultra vires*. Who makes the decision that your department shall carry on even though the courts have said it is *ultra vires*; how do you carry on without the introduction of an amending statute?

Mr. SIM: I can only answer that by saying great bodies move very slowly and legislation sometimes takes a long time.

Mr. WINCH: If you mean from 1929 to 1964, I will say it sure is a long time.

Mr. SIM: From 1923.

Mr. WINCH: I gather from you then that we may have a change by the turn of the century?

Mr. SIM: I am very hopeful that this royal commission some time before the end of the year will produce something.

Mr. WINCH: It would make the decision after it has been declared *ultra vires* by the courts?

Mr. SIM: This is a court decision but there are other decisions confirming the position of the department. We are involved in litigation all the time and we win cases which could be presented in answer to the statement you have made regarding one or two cases where the court felt there was some fault in the legislation. This would provide a field day for the lawyers in a matter where you and I might find ourselves out of our depths. I do not propose to get into this deep pool.

Mr. WINCH: When there are judgments or opinions by a court with which you do not agree, do you not as a rule appeal it to the supreme court; has this ever been referred to the Supreme Court of Canada?

Mr. SIM: I do not recall that this issue ever has gone as far as the Supreme Court of Canada. However, not only do we have respect for the courts, but we lean on them to help us carry on our work.

The CHAIRMAN: Can we put it this way, that there have been conflicting judgments of courts of equal jurisdiction, and that it has not been submitted to a court of authoritative decision by either, and certainly not to the Supreme Court of Canada.

Mr. SIM: Yes, and I do not take refuge by putting the blame on government. This is a matter in which the solution involves the difficulty of finding proper answer to the question. I am very hopeful that continued study of this by members of this committee and members of the royal commission will produce some constructive suggestions for amendment of the statute which parliament would find acceptable. It would certainly be welcomed by the

administration which has to try to breathe life into this act, which has this cloud on it, not apparent at the initial stage. We have to pay respect to these judgments, and the suggestions made by the royal commission. I think this suggestion should not be sort of brushed under the table. I do not want to infer that there is not substance to the criticism. The difficulty is in finding a proper solution, and it is in that regard we look to people who might be competent to help us.

The CHAIRMAN: Gentlemen, we have two more paragraphs, paragraphs 76 and 77. We have some time yet. I hope we might be able to study these so that it would not be necessary to bring back Mr. Sim and his assistant deputy minister.

We might now turn to paragraph 76.

76. *Remission of customs duty surcharges.* With the object of increasing customs duties on various classes of imports by 5%, 10% or 15% ad valorem, the surcharge on imports order was established by order in council P.C. 1962-902 of June 24, 1962. This order withdrew, with respect to many tariff items, all rates of customs duties more favourable than those of the general tariff and at the same time, by relying on section 22 of the Financial Administration Act, it remitted all customs duties to the extent necessary to ensure that amounts of duty collected were not increased by more than 5%, 10% or 15% ad valorem as the case might be. Subsequently, as various tariff items were exempted from the surcharge, this was accomplished by further remissions of duties to the extent necessary.

In applying the terms of the order, the Department of National Revenue did not require customs officers to calculate the full duty payable and record the amount remitted in each case, nor did it require that the amount of the surcharge be calculated separately. From the practical point of view, the application of the surcharge was thus accomplished with a minimum of administrative cost. However, as no record was kept of the tariff changes provided for by section 1 of the surcharge on imports order, of the remissions provided for by section 2 of the order or of the surcharge as a separate amount on each entry, information is not available as to the total of the additional duties payable as a result of section 1 of the order, as to the amount of the duties remitted by section 2 or as to the exact amount of the surcharge collected.

Mr. HENDERSON: This deals with the remission of customs duty surcharges. The purpose of this paragraph in my 1963 report was to provide an explanation as to why the remissions made here were not reported as required by section 22 of the Financial Administration Act. Possibly members may recall that this was the subject of some discussion in the house on November 27, 1962 (see page 2055 of *Hansard*).

As you will have observed from the paragraphs, in applying the terms of the order the Department of National Revenue did not require its customs officers to calculate the full duty payable and record the amount remitted in each case, nor did it require that the amount of the surcharge be calculated separately. It might be helpful if I were to outline an example to illustrate what took place.

Let us suppose that a piece of equipment valued at \$10,000 was imported under tariff item 410a(1) and the rate of duty is 35 per cent under the general tariff but free under the British preferential and most favoured nation tariff. The regular import entry would show the duty to be 35 per cent, in other words \$3,500. If this equipment was in the class that was being surcharged 5 per cent, then there would be another document recording the remission of 30 per

cent or \$3,000. In actual practice, however, the entry shows that the item is free under tariff item 410a(1) and underneath is entered simply "tariff surcharge 5 per cent—\$500".

As a consequence of following this practice, the department does not have any record of the remissions granted or of the names of the importers receiving the remission. This approach seemed a reasonable one to take because the intention to levy a surcharge of 5 per cent, 10 per cent or 15 per cent was made clear and there seemed little point in calculating duties which there is no intention of collecting and then calculating the individual remissions to arrive at the net result.

As I explained, I noted this procedure in my report for the benefit of the members because there appeared to have been some misunderstanding at the time the practice was discovered on November the 27th, 1962.

Mr. SIM: Mr. Hind will say something about this.

Mr. HIND: Mr. Chairman and gentlemen, the observation in the Auditor General's report would seem to imply that there was an obligation on the Department of National Revenue during the life of the Surcharge Order to have import entries prepared in such a way that the additional duties assessed and the concurrent remission provided for in the Order could have been tabulated. While a difference of opinion may persist on this point, there has been considerable discussion as to whether or not this course of action was technically necessary. The Department took the view that the Order was one of a general character, requiring only a statement in the public accounts giving the nature of the remission and the authority therefor. Whatever differing view is taken, the Auditor General has been good enough to observe in his report that "from a practical point of view, the application of a surcharge was thus accomplished with a minimum of administrative cost". To have done otherwise, the cost to the department and the taxpayer would have been quite out of proportion to the usefulness of the information to which the report refers.

The period during which the Surcharge Order was in effect extended from June 25, 1962 to March 31, 1963, both dates inclusive. There have been very few requests for information as to the amount of surcharge collected, either during the currency of the Order or since, and it is not expected that there will be very many, if any, requests in the future.

The CHAIRMAN: Are there any questions on this? If not, could you go on, Mr. Henderson for paragraph 77, which reads:

77. *Remissions of sales tax in excess of compromise offers.* Included in the remissions reported in the public accounts for 1962-63 were two cases where exceptional circumstances were present.

One of these cases involved a licensee operating as a manufacturer of restaurant booths, tables, etc., as a jobber selling restaurant and hotel supplies and as a general contractor handling renovating jobs. In the ten year period from 1948 to 1958 audits on six occasions by five different excise tax auditors resulted in additional assessments totalling only \$2,593. On the last of these occasions, in July 1958, the licensee was informed that his records were inadequate and that proper cost records must be maintained. An audit of the transactions of the subsequent three year period resulted in an additional assessment of \$36,823, and the excise tax auditor again reported the records to be inadequate. The amount of the assessment was disputed and an alternative figure of \$8,108 was put forward by the licensee. An attempt was made to check this figure but, in the meantime, all the records had been destroyed by fire. The excise tax auditor nevertheless re-examined the assessment and revised it downward to \$18,088. The licensee offered

a compromise settlement of \$10,000 which was accepted and the governor in council remitted the balance of \$8,088 plus penalty of \$3,545. In the meantime a sales tax audit for the year ended April 30, 1962 resulted in a further assessment of \$7,330, with the auditor once more reporting that the records were inadequate. The licensee again disputed the assessment and offered \$4,500 in full settlement. Again, this offer was accepted, and the governor in council, in June 1963, remitted the balance of \$2,630 plus penalty of \$926. This remission will be reported in the public accounts for 1963-64.

In the second of the two cases referred to above, excise tax auditors examined the records of the licensee, a beverage manufacturer, on ten occasions during the period from 1941 to 1959 and additional assessments totalling only \$678 resulted. Two auditors alternated in the first nine of these examinations and a third auditor made the tenth. In 1962 a fourth auditor made an examination of the records for the period from April 1959 to April 1962 which resulted in an additional assessment of \$15,216 for this period. Because of this large additional assessment the records for the period from March 1955 to March 1959 were re-examined and a further assessment of \$23,089 for this period resulted (there was no re-examination of the records for the period August 1941 to February 1955). The licensee tendered a payment of \$15,000 as a compromise settlement of the \$38,305 total of these assessments and the governor in council remitted the balance of the tax of \$23,305 plus penalties of \$9,560. In the course of the investigation of the case the licensee took an affidavit to the effect that he had made payments to each of the first three excise tax auditors personally. Prior to the sales tax audit which resulted in the first of the large additional assessments, one of the auditors previously involved had resigned and another had retired. The third was suspended and subsequently dismissed. Charges were laid against the retired auditor but he died before the case could be heard.

Mr. HENDERSON: We now come to the last paragraph which is paragraph 77 entitled Remissions of sales tax in excess of compromise offers. There is little that I can add to the two cases dealt with under this paragraph.

In the first case, the sum of \$11,633 was reported in the public accounts as a remission on page 37.2 in 1962-63, while the balance of \$3,756 will be similarly reported in the public accounts for 1963-64. In the second case the remission of \$32,865 was reported at page 37.2 of the public accounts for 1962-63.

Possibly Mr. Sim might wish to say a word with regard to these.

Mr. SIM: Mr. Labarge will say a word or two on these.

Mr. LABARGE: Mr. Chairman, I think that the Auditor General has given the essential facts. I would like to start with the background of the difficulties. In this instance, this particular licensee is a renovator, remodeller of restaurants. He is licensed because he also has a small shop in which he does certain manufacturing for the purposes of putting his products into restaurants that he is going to remodel, redesign or rebuild. He has great difficulties in arriving at an accounting method which will keep track of the great variety of new material, old material, material manufactured by him, material bought and exempt, material bought and tax paid by him, and everything else he puts into his job. He has a great deal of difficulty in keeping the labour costs of an employee who shifts from one site back to the shop and from the shop back to the site. These difficulties are innumerable and so far practically insurmountable.

All these so-called compromise settlements are the result of the auditor going in and endeavouring to establish, by whatever reasonable means he can, in the absence of adequate records, what is the taxable value of this man's work. We do not interfere with the auditors. We treat them as professional, ethical people who go in and do their best according to their full experience and judgment. When they have finished an audit, they turn to the taxpayer and let him know what they propose in the way of assessment. At this point, if he has a further argument or debate as to the validity of the assessment or, if there are considerations that were not taken into account by the auditor, the taxpayer can appeal this right through the line, right to the director of audit. He can even do this in the office of the assistant deputy or the deputy minister.

There comes a point however when a definite figure must be set on which the department wishes to take its stand for collection purposes, and it passes this decision on to the collection office. As soon as the collection office endeavours to obtain this amount, the accounting arguments frequently go by the board. They turn into legal arguments as to what is the legal proof we have in case this man wishes to contest. Measurements are arrived at which are, in a sense, reasonable, for instance the amount of profit that a man makes compared to the amount which other people in the same business make. The question then arises as to what the department can collect from this person if the case were brought to court. At this point we do not always find that we have the kind of evidence we need. On the other hand, the case of the taxpayer is not much stronger, the purpose of the department is to collect revenue. In this case the department feels that it should do its utmost to collect what it thinks is a proper amount of tax under the circumstance. You arrive at a position of give and take, the arguments balance each other off, and finally, in many of these cases, the taxpayer says "All right". It may be that he is just trying to get us out of his hair, or maybe he feels we have arrived at what is a sensible figure. He agrees to the arguments raised and we agree to his, so that he offers an amount of tax.

Having established the tax figure approved the figures of the audit, we then find ourselves with a figure on the books which is higher than the compromise offer. We then seek that difference by way of remission by order in council because we believe in having the judgment of a third party, another independent group brought together for these circumstances. You might raise the question: why do you make the audit final at all? You might say "If you fellows were smart enough, you would not give yourselves these problems. Just keep the audit open and do not make it a final figure, and when you come to the end, adjust your audit". This is not what we want. We cannot have this kind of laxity amongst the professional people doing our accounting. We want them to state, to the best of their accounting ability and judgment, what they feel is the right amount, and from then on we discuss this in negotiation with the representatives of a firm's management and its lawyers to determine what is the maximum we can get. This case has been a particularly tiresome and cumbersome one for all of us. We have sent in an auditor on a much shorter audit period since this report was last made, and again on Monday, that is yesterday, I had another auditor sent there to provide me with information regarding the present situation. He said he is more than hopeful that the method they put in at our last session regarding these accounts would produce a situation where we will not have to continue going back for remissions.

The CHAIRMAN: Are there any questions on this? If not, I think we can call this a very good day's work, and on behalf of the committee we extend to Mr. Sim, Mr. Labarge, Mr. Howell and Mr. Hind our great appreciation of their presence. They have been very helpful to us. Their comments, in addition

to what has been said by Mr. Henderson, will be very useful when we come to make our recommendations on these matters. We are most appreciative that you have come here.

Mr. SIM: Thank you, Mr. Chairman. You have seen in evidence today the functioning of the Auditor General and the functioning of the department. Unfortunately, nobody criticized the Auditor General.

The CHAIRMAN: It happens from time to time.

Mr. SIM: It is a satisfaction to preside in a single fiscal year over a collection of two and a half billion dollars in this section of the Department of National Revenue and find so little in the way of real criticism. It is very gratifying indeed.

The CHAIRMAN: The committee is adjourned until 9.30 on Thursday.

APPENDIX "A"

WAR VETERANS' ALLOWANCE BOARD

OTTAWA 4, 29 Oct 64

Gerald W. Baldwin, Esq., M.P.,
Chairman, Public Accounts Committee,
Room 534C, Centre Block,
Parliament Buildings, Ottawa.

Dear Mr. Baldwin:

The purpose of this memorandum is to provide you with my comments on the observations made by the Auditor General in his report to the House of Commons for the fiscal year ended March 31, 1963 dealing with the War Veterans Allowance Act and Part XI of the Civilian War Pensions and Allowances Act.

The pertinent sections are 88 and 89, to be found on pages 56, 57 and 58.

The observations contained in the 1962 report are also covered in this memorandum.

1. *Mortgages Receivable and Agreements for Sale*

Section 88—Page 56

The practice of not considering mortgages as personal property or marketable securities has been in effect for many years. The great majority of mortgages receivable and agreements for sale are of modest sums; and, the decision to treat principal and interest payments received on account as income was designed to take care of the normal situation when the recipient has sold his residence for a low down payment with the balance payable over a period of some years. This practice was later expanded to take care of the sale of property in which the recipient has conducted a small business and had also resided.

Treating the proceeds of mortgages receivable and agreements for sale as income reduces the amount of the allowance payable to the recipient, generally, over a long period. If the recipient were forced to sell his security at a marked discount, he might be encouraged to reduce the remainder of his personal property to the required limit (quite legally); and would in all likelihood, in a year or two, come on at the full allowance.

Many widows have been forced to sell the family home on the death of the husband, receiving only a small down payment and small mortgage receivable payments. In most cases, the mortgage receivable payment is not sufficient for food, shelter and clothing. If it were not treated as income, the recipient would be forced to incur a substantial loss in selling and would eventually soon again become a recipient but at the full rate.

I think that the Regulations made pursuant to the Old Age Assistance Act, the Blind Persons Act and the Disabled Persons Act, whereby the amount received under a mortgage or agreement for sale may be considered as income, point up the correctness of the War Veterans Allowance Board's decision in respect of such incomings if it is remembered that an allowance under the War Veterans Allowance Act is akin to an allowance under those statutes since they are all subject to a means test and designed to provide a maintenance allowance to those needy persons who are otherwise eligible. It should be understood, of course, that mortgages and agreements for sale which have been bought as an investment are assessed as personal property.

2. *Sale of Property used as a Residence*

Section 88—Page 56

The twelve months freedom from assessment as personal property was made applicable to all, so that all persons selling their homes and relocating, would be treated uniformly. The immediate assessment of 5% of the cash sale price as income reduces the allowance, or it causes cancellation where sufficient other income is involved. In many cases the new home is not complete when purchased and further expenditures (possibly up to the total sale price) may be necessary.

Whether, after selling his residence, the recipient purchases a new residence early in the year or late in the year he is bound to have residual cash on hand and were it not for section 12 (2) of the regulations he would be off the allowance.

A year seems to meet the transition period of most cases and certainly those involving relocating outside Canada require the full year.

The granting of one year's grace has been in effect for a considerable time. Previous instructions required the recipient to state his intention in writing as to whether he was going to purchase a new home in which event he was given a year in which to complete the transaction. This method, however, fostered certain abuses and was changed, the statement of intention to repurchase being dropped. Paragraph 6 of W.V.A.B. Administrative Memorandum No. 3-1962 sums up the reason:

The reason for granting the year's grace 'regardless of whether he expressed his intention' to repurchase, was to make for equitable treatment of all recipients who plan to relocate, as it was found by experience that under the old Instructions, some recipients stated they meant to repurchase but never did so, while others did not state an intention but actually did repurchase and were placed at a disadvantage in comparison with the recipient who did not carry out his expressed intention.

In legislating for uniformity, it was considered that a year was a reasonable time in which a recipient could sell his residence, purchase a new residence and carry out repairs and improvements. In the case where a recipient might complete his transaction in a short period he still cannot expend any surplus from his original sale during that year except those permissible expenses, such as relocation expenses and repairs, additions to property, etc.

3. *Penalties Under the Act*

Section 88—Page 56

In the past a good number of cases have been prosecuted under the Criminal Code on the advice of the Department of Justice, rather than under section 20 of the War Veterans Allowance Act.

Experience with these prosecutions has indicated that the courts are inclined to be lenient, first, because the wrong-doer is a veteran; second, because of the age group of WVA recipients; and third, because of the general condition of the recipient's health. Other considerations which have been put forward as a defence in cases which have been prosecuted are the lack of formal education of recipients and the language difficulty of those of foreign extraction. Although convictions were handed down, sentences were usually suspended and thus legal action did not constitute a deterrent. If anything, it was the opinion that publicity of the Court's leniency in suspending sentence could have just the opposite effect. Furthermore, the Courts frown on any attempt to use criminal proceedings as a means of forcing payment of a civil debt.

4. *Income of Children*

Section 88—Pages 56 and 57

Sometime ago proposed amendments to the War Veterans Allowance Regulations were submitted to the Legislative Section of the Department of Justice. The amendments sought to exempt as income certain items, among them scholarships, bursaries and like awards payable to a child of a recipient as well as superannuation payments made under the Public Service Superannuation Act or superannuation or pension plans of a similar kind to a recipient on behalf of a child or children of that recipient.

After examination of the Act and discussion of the proposed amendments, the Director of Legal Services of the Department of Veterans Affairs following consultation with officials of the Department of Justice communicated the following to the War Veterans Allowance Board:

"While the Act in at least two of its sections (section 6(f) and (g) and section 12) seems to imply that the total annual income of a veteran or widow and the child or children with whom the veteran or widow resides must be considered in determining the amount of the allowance to be paid, section 3(2) of the Act very clearly provides that the allowance payable shall be the lesser of the monthly rate specified for a veteran, widow or orphan in column II of Schedule A or the monthly rate that will produce the total annual income (including allowance) specified for the veteran, widow or orphan in column III of the same schedule. Examination of Schedule A further discloses that while the maximum total annual income (including allowance) is fixed at \$2,088 for a veteran and spouse where the veteran and spouse reside together the same annual income is permitted to any of the persons described in class 3(a), (b), (c) and (d).

The legal effect of section 3 of the Act, when read in conjunction with Schedule A, is that the income only of each of the persons named in class 3 of column I of the schedule must be considered, disregarding the income of such person's child or children.

It should be noted also that there is a distinction between an amount of money paid to a recipient because that recipient has a child (mother's allowance) and an amount of money paid to a recipient on behalf of a child. The money paid in the circumstance first recited is that of the recipient while in the next recited circumstance, the money is that of the child."

On another occasion, in answer to a request for further clarification of the distinction made between money paid to a recipient because he has a child and money paid to a recipient on behalf of a child, the Director of Legal Services wrote as follows:

"As one example I propose to use Mothers' Allowances. Moneys paid under this type of legislation are paid to the mother simply because she has a child or children to support where the mother's resources or income are inadequate to meet her responsibilities to her children. The allowance is paid to assist the mother to support her children. In the Ontario Act the beneficiary is defined as the person receiving the allowance. Furthermore, under the Ontario Act an allowance may be paid to a foster mother meeting the conditions of the Act who has resident with her one or more orphan children. Such allowances are properly the income of the beneficiary. Family Allowances and Children's Allowances paid under the Pension Act are of the same type.

The other example,—moneys paid to a recipient on behalf of a child might be illustrated by Indian Band Funds, concerning which you already have a ruling from the Department of Justice. Indian Band Funds are distributed on a per capita basis, and while paid to the head of the household for minor children, the funds are, according to the legal ruling, the income or money of the child and not that of the parent who receives it. The same reasoning would apply to annuities or allowances paid under the Public Service Superannuation Act. A widow and children receive specified proportions of the annuity or allowance, but if the children are minors the moneys are paid to the widow on behalf of the children and the Act deems the widow in such case to be the guardian of the estates of the children.

Scholarships or bursaries are the property of the child on whose behalf they are made or donated. A specified child only may make use of the bursary or scholarship. Again, moneys paid to a parent as guardian or trustee of a child are subject to very strict trust limitations not inherent in Mothers' Allowances, etc. The money belongs to the child and may be expended on behalf of that child alone. There is also the duty to account to the child in cases of guardian and trustee relationships. This duty is not found where the money is simply paid to assist a recipient to support, maintain, or care for a child or children."

The distinction between money paid because of a child and money paid on behalf or for a child has been the subject of lengthy discussion by the Board which sought legal advice in order to clarify the matter of income of children in relation to the War Veterans Allowance Act. Since subsection 2 of section 3 of the Act refers to the rates which shall be paid to only a veteran, a widow or an orphan, I believe that income paid to, or for dependent children, as a means of relieving wholly or partly the burden of their maintenance, is intended to be exempt income insofar as the recipient of War Veterans Allowance is concerned.

A veteran residing with spouse is paid a monthly rate of \$144.00. Whether he has no children or has a large number of them has no effect on the rate payable. However, should a municipality or a province decide to pay a monthly supplement which could augment the veteran's income to the income ceiling permitted by the statute administered by that province or municipality and predicated on the size of the family, then that supplement could be exempted as income to the veteran if the paying body states that it is for the children. And, it is not the concern of the War Veterans Allowance Board from what source the money emanates since the Board is governed by the statement from the province or the municipality that such money is, in effect, for the children. One example is the case of a veteran residing with spouse and seven dependent children who would be eligible for social assistance at the rate of \$255.00 a month. He is awarded War Veterans Allowance at \$144.00 a month and applies to the province for additional assistance because of the children. Should the province decide to grant assistance in a monthly amount representing the difference between \$255.00 and \$144.00 and states that it is for the children, the Board will disregard that amount by virtue of section 6 (1)(f) of the War Veterans Allowance Act. Similarly, when the Workmen's Compensation Board pays compensation to a veteran because of a loss of earning power and informs the Board that a certain portion is for one or more dependent children, only that portion payable for the veteran and his spouse is assessable. It must be remembered that the provinces and municipalities are administering welfare statutes which are much wider in scope since they are predicated on the numbers in a family unit, whereas the Board must be governed by its legislation

which restricts War Veterans Allowance payments to veterans, widows and orphans notwithstanding the number of children in the family unit.

5. *Partial Exemption of Old Age Security Pension as Income*

Section 88—Pages 57 and 58

The comments of the Auditor General on the exemptions to Old Age Security Pension in relation to recipients of War Veterans Allowance and Civilian War Allowances refer to a decision by the Government.

6. *Civilian War Pensions and Allowances*

Section 89—Page 58

When Civilian War Allowances were put into the legislation, the Department of National Health and Welfare did not have an opportunity to amend the legislation of the three benefit Acts of that Department to conform with the manner in which WVA recipients are statute barred in those acts referred to by the Auditor General.

As a temporary measure until legislative action may be taken by the Department of National Health and Welfare, it has been the policy of the War Veterans Allowance Board to assess any partial allowance of Old Age Assistance, Blind Persons Pension and Disabled Persons Pension paid to a recipient of Civilian War Allowances and thereby equate his position with that of a recipient of War Veterans Allowance in accordance with sections 69 and 70 (2) of Part XI of the Civilian War Pensions and Allowances Act.

Yours sincerely,

W. T. Cromb,
Chairman.

APPENDIX "B"

DEPARTMENT OF VETERANS AFFAIRS
LEGAL SERVICES

OTTAWA 4, Ontario, November 2, 1964.

W. T. Cromb, Esq.,
Chairman,
War Veterans Allowance Board.

*Re: Criminal Prosecutions—
Recipients of war veterans allowance—
for fraud or wilful misrepresentation.*

In compliance with your request I have reviewed the files of the Legal Section of this Department with respect to the above-named subject. During the past several years only two criminal prosecutions have been instituted, in one case under the penal section of the War Veterans Allowance Act and in the other under the fraud provisions of the Criminal Code. In the first-mentioned instance the accused was convicted and sentenced to thirty days on each of two counts, while in the second case the accused received suspended sentence.

The Legal Section has submitted for instructions as to criminal prosecution two or three cases of fraud, but the final decision was against prosecution. That decision possibly stems from the fact that for a time the Department of Veterans Affairs did persistently and consistently take criminal proceedings against veterans with respect to offences under the War Veterans Allowance Act and the War Service Grants Act. It was found, however, that the Courts across Canada were disposed to be lenient with veterans, particularly so in the case of fraud charges against recipients of war veterans allowance who almost invariably were aged, had served their country well in time of war, and were often suffering from disabilities due to the ageing processes. It was quite usual for the Court even though the offence charged carried a maximum penalty of several years in gaol, to grant suspended sentence in these instances. While the matter of sentence is one over which this Department has no jurisdiction and is one which is entirely in the discretion of the convicting judicial authority, a succession of suspended sentences is not deterrent to a repetition of fraud and wilful misrepresentation in connection with the receipt of war veterans allowances.

In view of the foregoing, the Legal Section of this Department has concentrated its efforts of late toward recovery in each case of the moneys due the Crown.

T. T. Taylor,
Director of Legal Services.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

Public Accounts, Volumes I, II and III (1963)
Report of the Auditor General to the House of Commons
1963

THURSDAY, NOVEMBER 5, 1964

WITNESSES:

Mr. N. Castonguay, Representation Commissioner; and Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice Chairman: Mr. P. Tardif

and Messrs.

Berger,
Cameron (*High Park*),
Cardiff,
Choquette,
Côté (*Chicoutimi*),
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Dubé,
Fane,
Fisher,
Forbes,
Francis,
Frenette,
Gendron,
Grafftey,

Gray,
Grégoire,
Hales,
Harkness,
Horner (*Acadia*),
Leblanc,
Legault,
Lessard (*Saint-Henri*),
Loiselle,
Mandziuk,
McLean (*Charlotte*),
McMillan,
Muir (*Lisgar*),
Nowlan,
O'Keefe,
Pigeon,

Pilon,
Prittie,
Regan,
Rinfret,
Rock,
Rondeau,
Ryan,
Smith,
Southam,
Stefanson,
Stenson,
Stewart,
Tucker,
Wahn,
Whelan,
Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, November 5, 1964.
(39)

The Standing Committee on Public Accounts met this day at 9.45 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cameron (*High Park*), Cardiff, Crouse, Fane, Forbes, Frenette, Harkness, Leblanc, McMillan, Pilon, Regan, Rock, Southam, Stefanson, Stenson, Tardif, Tucker, Wahn and Winch. (20)

In attendance: Mr. Nelson Castonguay, Representation Commissioner; Mr. M. Fauvelle, Chief Examiner of Election Accounts; Mr. A. M. Henderson, Auditor General of Canada and Mr. S. E. Chapman, of the Auditor General's office.

The Committee resumed consideration of the 1963 Report of the Auditor General.

The Chairman introduced Mr. Castonguay and then called Mr. Henderson.

On paragraph 49 of the 1963 Report, *General election expenditures*, Mr. Henderson reviewed this paragraph and was briefly examined thereon.

Mr. Castonguay was examined on the financial aspects of the administration of the two general elections noted in the audit and supplied additional information to the committee.

The questioning of Mr. Castonguay being concluded, the Chairman thanked him and he was permitted to retire.

The Committee then reviewed paragraphs 111 to 127 inclusive of the 1963 Report of the Auditor General, with Mr. Henderson commenting on each paragraph and being examined thereon.

The Chairman suggested that consideration be given to the examination of several Crown corporations at the next session of Parliament and advised that the Steering Subcommittee would further study this matter.

The questioning of Mr. Henderson still continuing, at 11.10 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, November 10, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

THURSDAY, November 5, 1964.

The CHAIRMAN: Gentlemen, I see a quorum. I will call the meeting to order.

Today we are going to deal with matters arising in paragraph 49 of the 1963 report. We are delighted to have with us Mr. Nelson Castonguay who, while he has not as yet appeared before this committee, at least since I have been here, has been before the privileges and elections committee on many occasions. Of course, as members, we see his name on a lot of documents. He is, as you all know, the representation commissioner under the statute which was passed and his duties will ultimately be settled by the terms of another statute now struggling to be born. For many years he was the Chief Electoral Officer, and the report which we are going to consider will refer to the duties which he carried out in that capacity. We are very pleased to have Mr. Castonguay with us in case members want to ask questions about this particular paragraph.

I think, gentlemen, I will follow the usual practice of asking Mr. Henderson to deal with this paragraph, to make his comments on it, and then the members will be free to ask any questions of Mr. Henderson or Mr. Castonguay on this particular paragraph, which follows:

49. *General election expenditures.* The 1962-63 accounts include expenditures of \$10,325,533 in respect of the general election held on June 18, 1962 and expenditures of \$1,137,813 towards the cost of the general election held on April 8, 1963. Up to the end of August 1963, expenditures on the two elections amounted to \$10,556,889 and \$12,225,517 respectively, with an estimated \$100,000 of accounts remaining to be approved for payment in connection with the 1963 election. The increase in the cost of the second election was due largely to upward revisions in the tariffs of fees authorized by the governor in council by orders in council P.C. 1963-188, P.C. 1963-189 and P.C. 1963-190 of February 6, 1963. The allowances payable to returning officers were increased by approximately 25%, with the minimum allowance for personal services remaining at \$1,500. There were similar increases in the allowances provided for other election officers, including deputy returning officers, poll clerks, enumerators and election clerks. Allowances for other services, travelling expenses, and printing were also increased, and the allowance for the rental of each ordinary polling station established in a building was increased from \$20 to \$24.

The following financial aspects of the administration of the two general elections were noted in the audit:

1. *Advance Polls.*—Under the provisions of the former Canada Elections Act, R.S. 1952, c. 23, the privilege of voting at an advance poll was restricted to persons whose occupations necessitated absence from their ordinary places of residence on polling day. It was also provided that if a total of less than 15 votes were cast at an advance poll, the Chief Electoral Officer should delete the name of that place from the authorized schedule of advance polls.

The Canada Elections Act, 1960, c. 39, extended the privilege of voting at an advance poll to any elector who has reason to believe that he will be absent from his polling division and unable to vote on the ordinary polling day, with a consequent increase in the number

of advance polls, but the provision regarding the disestablishment of an advance poll where less than 15 votes were cast was not incorporated in the 1960 act.

Less than 15 votes were cast at each of 586 of the 1,862 advance polls established for the 1962 election and no votes were cast at 35 of these polls. The cost of the 586 polls was estimated at \$76,000. There were 1,791 advance polls for voters in the 1963 election, of which 578 reported less than 15 votes each. No votes were cast at 26 of the advance polls, one vote was cast at each of 44 polls and two votes were cast at each of 34 polls.

2. Revision of Boundaries of Polling Divisions.—Section 11(1) of the Canada Elections Act provides that the polling divisions shall be those established for the last general election, unless the returning officer considers that a revision of the boundaries thereof is necessary. General revisions of boundaries were ordered by the Chief Electoral Officer in January 1961, in January 1962 and in July 1962, the cost in each case approximating \$150,000. Instances were noted where the descriptions of boundaries, after revision, were identical with the descriptions of the polling divisions given in the notice of grant of poll at the previous general election. It was explained that the main purpose in ordering the general revisions was to keep the election machinery in a state of preparedness.
3. Advances made to Election Officers.—It has been the practice over the years to make accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. In June 1958, when authority could not be found for the making of such advances, we suggested to the Chief Electoral Officer and to the comptroller of the treasury that, until such time as the Canada Elections Act might be amended, the claims should be paid by separate cheques issued from the office of the comptroller of the treasury at Ottawa, and sent direct to each person entitled to payment, as stipulated in paragraph (b) of subsection (3) of section 60 of the act.

The provisions of section 60 were re-enacted, without material change, in the Canada Elections Act, 1960, c. 39, and in April 1962 we again drew attention to the lack of authority for advances to election officers. During the ensuing 1962 election, some \$400,000 was advanced to election officers, the advances to individuals ranging from \$200 to \$10,000. It was noted that 32 of the 263 returning officers did not request or receive advances.

The Chief Electoral Officer, in his report to the Speaker of the House of Commons on the 1962 general election, recommended that the Canada Elections Act be amended to provide authority for the payment of an accountable advance to an election officer, limited to an amount deemed necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

Although the proposed amendment was not enacted, \$373,000 was advanced to returning officers for the payment of expenses in connection with the 1963 general election.

4. Rental of Furniture for Ordinary Polling Stations.—The elections fees tariff provides an allowance (\$20 in 1962; \$24 in 1963) for the rental of each ordinary polling station established in a building or part of a building, including fuel, light and furniture, and when a number of polling stations are centralized in a hall or municipal

building the allowance is paid for each polling station established therein. In the audit of the 1962 election accounts, additional expenditures were noted for the cartage and rental of furniture without a corresponding reduction in the amounts paid to the landlords.

When a new tariff of fees was authorized in February 1963 the item which provides for the necessary rental or purchase of screens or any material used for voting compartments in polling stations was extended to include the rental of furniture.

5. **Printing of Ballot Papers.**—As in the 1957 and 1958 general elections, the number of ballot papers printed in some electoral districts in 1962 and 1963 far exceeded the number of electors. An excess of more than 40% was noted in 20 districts in 1962 and in 28 districts in 1963. In one constituency with 18,000 electors, 26,400 ballot papers were printed in 1962 and 30,000 in 1963.
6. **Travelling Allowances paid to Election Clerks.**—There is provision in the tariff of fees for the payment of mileage to an election clerk when he is required to travel in connection with the conduct of an election. When it was observed in the audit of the 1962 election accounts that payments had been made to election clerks for travelling between their places of residence and the offices where they worked, attention was drawn to the general election instructions of returning officers which state that an election clerk must be an ordinary resident of the locality where the returning officer will open his office for the conduct of the election. Payments of this nature were discontinued, but no action was taken to recover the amounts already paid.
7. **Employment of Constables.**—The authority for the appointment of a constable at a polling station is section 48 (10) of the Canada Elections Act, which provides that:

“Any deputy returning officer may appoint a constable to maintain order in his polling station throughout polling day; this authority, however, shall not be exercised unless the services of such constable are deemed absolutely necessary; a constable may be appointed only when there is actual or threatened disorder, or when it is likely that a large number of electors will seek to vote at the same time; generally the appointment of one constable shall be made where more than one polling station is established in the same building or in adjoining buildings for a given polling division, to ensure the successive and prompt entrance of the electors into their proper polling station.”

Just prior to the 1962 election, the Chief Electoral Officer circularized the returning officers in 52 electoral districts regarding the employment of an excessive number of constables on election days in 1957 and 1958 (referred to in paragraph 101 of our 1958 report). As a result there were 2,183 fewer constables employed in 1962 than in 1958, although the number of polling stations had increased by 2,823. The reduction in the number of constables employed would have been greater had there not been included in the tariff of fees an additional item providing an allowance of \$6 for the services of a constable at an advance polling station. In some districts constables were employed at advance polling stations where few, if any, electors voted (in one district where only four electors voted in advance of polling day, constables were employed at each of the five advance polling stations). Constables were also employed at some revisal offices, and payments (at \$15 per day in 1962 and \$17 per day in 1963) were made to a number of women who acted as special constables in places where more than one polling station was located.

In a number of cases noted in the audit of the 1963 election accounts, a constable had been appointed at each polling station where two or more polling stations were established at the same location.

In two cases duplicate payments were made when two deputy returning officers each certified that the same person had acted as constable at his polling station.

8. Duplicate Charges.—For all personal services, a returning officer receives allowances based on (a) the number of names included in the preliminary lists of electors in urban areas, (b) the number of polling stations in rural areas, and (c) the number of advance polling stations established in the electoral district. Payments made to individual returning officers for personal services during the 1963 election ranged in amount from the prescribed minimum of \$1,500 to \$8,600. Cases were noted in the audit of the election accounts where payments at the rate of \$12 per day had been made to other persons, classed as election clerks and messengers, for selecting enumerators, deputy returning officers and polling stations. Normally these duties are considered to be part of the function of the returning officer.
9. Allowances paid to Special Election Officers.—The Canadian forces general elections fees tariff which was in force during the 1962 general election provided for payment of allowances to special returning officers and chief assistants, deputy special returning officers and scrutineers "for each day or part thereof necessary absence from place of residence", and for payment of travelling and living expenses. In the audit of the accounts, cases were noted where the whole amount of the daily allowance had been paid for any portion of a day spent in travel (in some cases from 11 p.m. to midnight). The Chief Electoral Officer decided that, thenceforth, an officer who had departed from his home after six p.m. to take up his duties would not qualify for an allowance for that day, and that the availability of convenient transportation facilities to enable an officer to arrive at his place of duty on time would be taken into account. A number of accounts which had been approved for payment were recalled and reduced, and in other cases recovery was made from fees which became payable in respect of the 1963 election. The reference to part of a day was dropped when a new tariff of fees was approved in February 1963.

One special returning officer in 1962 was paid the prescribed allowance of \$30 per day for two days on which he had left his place of residence for Ottawa at 11.15 p.m. and for two days when he was at home. When the overpayment was collected from a subsequent account the officer claimed four days pay at \$30 per day for personal services after the closing of the election office. Payment was approved under Item 9 of the tariff of fees which states that, in any case where the allowances provided by the tariff of fees do not by reason of special circumstances constitute adequate remuneration, the Chief Electoral Officer may authorize the payment of such increased allowance as is deemed necessary to provide sufficient remuneration. It is our opinion that, in the case in question, the claim, when approved, should have been submitted to the governor in council for authorization under subsection (6) of section 60 of the Canada Elections Act which reads:

"Whenever it appears to the governor in council that the fees and allowances provided by the tariff are not sufficient

remuneration for the services required to be performed at any election, or that any claim for any necessary service performed, or for materials supplied for or at an election, is not covered by such tariff, he may authorize the payment of such sum or or additional sum for such services or materials supplied as is considered just and reasonable."

The Chief Electoral Officer, in his report to the Speaker of the House of Commons on the 1963 general election, suggested that section 60 of the Canada Elections Act be amended by adding thereto, immediately after the subsection quoted above, the following as subsection (6a):

"The Chief Electoral Officer may, in accordance with regulations made by the governor in council, in any case in which the fees and allowances provided for by the tariff are not sufficient remuneration for the services required to be performed at any election, or for any necessary service performed, authorize the payment of such sum or additional sum for such services as is considered just and reasonable."

The proposed amendment, if enacted, would provide statutory authority for payments of the kind heretofore made under Item 9 of the tariff of fees, the authority for which item has been in doubt.

Mr. HENDERSON (*Auditor General*): Mr. Chairman, this comment in my 1963 report deals with the expenditures made for the 1962 general election which cost \$10,567,000, and the 1963 election the cost of which stands today at \$12,466,000. As I have indicated, the increased cost of the 1963 election was due largely to the upward revisions in the tariffs of fees authorized by the governor in council whereby the allowances payable to returning officers were increased by approximately 25 per cent, with the minimum allowance for personal services remaining at \$1,500. There were similar increases in the allowances provided for other election officers, including deputy returning officers, poll clerks, enumerators and election clerks. It has been customary for us in the audit office to carry out a fairly detailed audit of general election expenditures, and the note here will give you some idea of the scope of that audit. In reviewing the cost of these two general elections I felt there were a number of financial aspects of the administration to which I should draw your attention. These have been summarized in the nine items beginning at page 21 and ending at page 24. I do not believe I have anything further to add, Mr. Chairman. We have our working papers here and we will be happy to answer any questions members may want to direct to me or to Mr. Chapman.

The CHAIRMAN: Thank you, Mr. Henderson. I spoke to Mr. Castonguay concerning his feelings on making a statement regarding any particular aspect of this. I understand that in his view the matters referred to under these nine headings are self-explanatory. He is prepared, of course, to answer any questions which may be asked by members of the committee.

Mr. FORBES: Mr. Chairman, under this first item you refer to allowances payable to returning officers being increased by approximately 25 per cent, with the minimum allowance for personal services remaining at \$1,500. Does this mean that any returning officer in any electoral district, regardless of the number of constituents, receives a minimum of \$1,500?

Mr. CASTONGUAY: That is correct. That is what it means.

Mr. FORBES: What would the average returning officer receive for his total services?

Mr. CASTONGUAY: Well, for our purposes, we consider the period of the election at about three months, and the average returning officer would receive between \$125 to \$150 a week for that period of time. That is the only fee he receives during the period of the election.

Mr. FORBES: But, according to my calculations, that does not add up. If you take \$125 a week it would amount to about \$600 a month or \$2,400 a year.

Mr. CASTONGUAY: The figure is \$1,800. Some constituencies are below that. The responsibility of a returning officer, whether he has a constituency of 30,000 or 60,000, reaches a point where he has the same responsibility, and we pay the returning officer on the basis of so much per name or so much per polling station. We have considered there should be a minimum for small rural constituencies because the returning officers have the same responsibility and, in some cases, greater problems in administering the electoral districts.

Mr. WINCH: I have a question, Mr. Chairman.

The CHAIRMAN: I believe Mr. Leblanc is next. Mr. Leblanc, are you on the same matter?

Mr. LEBLANC: I would like to put a question in respect of paragraph 49 and what we have been discussing.

The CHAIRMAN: Would you proceed.

Mr. LEBLANC: Mr. Henderson mentioned, in respect of the total of the expenses for the 1963 elections, a figure of \$12,466,000. Does that figure also include the salaries paid to the department or does that include only the returning officer and everything else with regard to the election?

Mr. CASTONGUAY: It has regard only to election expenses.

Mr. LEBLANC: So, your department as a department is not included in that?

Mr. CASTONGUAY: No, because all election expenses are paid out of the consolidated revenue fund, and in respect of my own office the estimates are voted by the house.

Mr. LEBLANC: So, they would not be included in that?

Mr. CASTONGUAY: No. As I said, only the election expenses would be included.

The CHAIRMAN: Would you proceed now, Mr. Winch.

Mr. WINCH: I wanted to ask, Mr. Chairman, if any payment is made to returning officers in between elections?

Mr. CASTONGUAY: What is done in between elections is that there is a provision in the tariff of fees for the revision of polling division arrangements and for storage of election supplies. These general revisions are ordered by me. I recently ordered one. The returning officers are paid on a tariff basis of \$1.25 for each polling division in respect of fees for revising their polling division arrangements, and they are paid \$1.25 for the storage of election supplies that are needed to launch the election. These supplies are the enumeration supplies.

In order to hold an election in the minimum period of 58 days two things have to be accomplished. There must be a revision of polling division arrangements, and while I have had all the supplies in Ottawa since the beginning of 1964 these enumeration supplies must be in the hands of the returning officers so that if an election is called and it is desirable to have it in the minimum period of 58 days from the day of dissolutionment to voting day these two things can be done. Now, the practice has been that I have delayed at previous elections. I delayed ordering supplies after the 1963 election because the committee on privileges and elections was charged with the study and review of the Canada Elections Act. This normally in-

volves a great deal of reprinting, so after the 1963 election I had no supplies. We normally order only a sufficient supply for one general election and subsequent by-elections. So, in 1963 I ordered the general election supplies. And then, in 1964, in view of the fact that the electoral boundaries readjustment act was before the house and the study of the Canada Elections Act by the committee on privileges and elections had not been completed I did not send the supplies to the constituencies. I just commenced this last week as well as ordering the revision of polling divisions.

Mr. WINCH: It is my understanding that other than the payment for the straight election period it is only paid once, and that is in respect of a certain amount for storage and a certain amount for revision.

Mr. CASTONGUAY: Yes.

Mr. WINCH: Based on the number of polls?

Mr. CASTONGUAY: Yes.

Mr. WINCH: In respect of my own riding then he would be paid approximately \$300 in between elections? Am I correct in this assumption?

Mr. CASTONGUAY: Yes, but it depends on the number of polling divisions there are.

Mr. WINCH: I have 137.

Mr. CASTONGUAY: Then that would be about it.

Mr. TARDIF: How long does the process of rearranging your polls in Canada take? I am trying to find out the date of the next election.

Mr. CASTONGUAY: I do not think you can find it out from there.

Mr. TARDIF: Is there any other method which you might suggest?

The CHAIRMAN: I have Dr. McMillan next, followed by Mr. Crouse.

Mr. McMILLAN: What are your feelings in respect of advance polls? I presume you can do nothing about closing down some of them without an amendment to the Canada Elections Act.

Mr. CASTONGUAY: You must remember that the whole concept of advance polls was changed unanimously in 1960. Prior to that only commercial travellers, transportation employees, members of the reserve forces, the Canadian forces and members of the R.C.M.P. were entitled to vote at these, and advance polls were established where these people normally would be. So, prior to 1960 there were not any more than 250 advance polls throughout the country. In 1960 this right or privilege of voting at advance polls was extended to anyone and, consequently, we have to provide the facilities. I informed the committee on privileges and elections at that time it would require a considerably greater number. My estimate then was around 2,000 advance polls in Canada instead of 250.

In 1960 we had approximately 1,800 advance polling stations in the country, 80 per cent of which were mandatory. In the whole of the electoral districts, so I am informed, there must be established one advance poll for each district. The returning officer is also obliged to establish an advance poll in every city, town or village of 1,000, in rural areas. This means that 80 per cent, or 1,500 to 1,800 of the advance polls are mandatory. The other 300 are not. In some electoral districts this formula does not apply, naturally, for example, as in the electoral districts for various sparsely settled areas. But the experience of the last two general elections has shown that in rural areas alone these facilities are essential. It was felt essential to provide relatively equal facilities for rural as well as for urban areas. And it would appear from the results of the advance polling that rural people are more interested in voting on general election day rather than at advance polls.

Mr. CROUSE: Could you tell us what would be the average cost per constituency in Canada for advance polls?

Mr. CASTONGUAY: The cost will differ. It is more expensive to run an election in a wholly urban area. I think in the last election the cost was in the neighbourhood of, roughly, \$1.24 per elector.

Mr. CROUSE: How much greater do you think it would be?

Mr. CASTONGUAY: For instance, you have two enumerators in each urban polling division, where you only have one in the rural. One way to estimate the cost would be to take the basis of 10 million electors, with the cost of \$12,400,000, which comes to about \$1.24 per elector. If you project that into the number of electors, this would represent the cost. But there are other costs to be considered, such as the taking of votes of members of the Canadian forces, which must be shared equally; and there are other costs which must be divided among the 263 constituencies. I think if you take \$1.24 per elector, you will get a fairly reasonable cost per constituent.

The CHAIRMAN: Are there any further questions? We have covered the general item.

Mr. ROCK: Is there any actual check made on whether the returning officer, when given these orders to revise the polls, has actually done the job? I ask this because I notice during election time when the returning officer has not done his job, we always have A, B, and C areas which have been extended.

Mr. CASTONGUAY: If you will notice my printed instructions contained in my general election book for returning officers, you will see that returning officers are instructed to consult with political organizations in their electoral districts to see if they have any general recommendations to make in order to improve the polling arrangements. When I order a revision, this is generally known by everybody and it seems to me that there is some criticism made because some polling division arrangements do not change at all. That does not mean to say that the returning officer has not been put to some work; he has had to study his polling division arrangements to see what changes have been made. I think if you judge the work a returning officer has done on polling division arrangements on the basis of whether there is any change in each and any of the polling set-ups, I think it would not be a fair assessment of his work.

Mr. WINCH: I have a point that has a bearing on costs.

May I ask Mr. Castonguay if there is any permissive power in the returning officer's operations?

I can give the best example from my own constituency. In my constituency I have an old people's home in which many of the inmates are bedridden. I have a senior citizens' housing development, and a great many of the people there never get out. I would say that I have roughly 2,000 people in those two areas.

In 1962 there was either a travelling poll or arrangements were made. In 1963 this was denied and there has not been a change in the act since 1960. Can you explain that situation to me?

Mr. CASTONGUAY: Yes I can.

Mr. WINCH: It is very important.

Mr. CASTONGUAY: This is not a question of costs. I believe that since I took over from my predecessor and prior to that there was a general desire on the part of old people's homes and institutions to have polling facilities within their premises and to have a polling division established exclusively for them.

Mr. WINCH: For travelling?

Mr. CASTONGUAY: Travelling has never been allowed. The act has been amended. In the constituencies travelling arrangements have not been allowed except for bedridden patients in chronic institutions.

Mr. WINCH: But not in old people's homes?

Mr. CASTONGUAY: People in old age homes are not bedridden because of some chronic disease. Where there is a certain number of people in an old people's home who are bedridden the provision in the act applies for one agent, deputy returning officer and poll clerk to move from bed to bed and take the votes of the bedridden patients.

What has developed over the years and in the last three elections is that these old people's homes have wanted their vote diluted into adjacent polling stations because their vote was identifiable as a group. I will leave it to your imagination why.

What we have done in religious institutions and old people's institutions, at the request of the people who administer these and at the request of the patients, is to take the old people's home and include it in an adjacent polling division, establishing the polling station in the old people's home or the institution or hospital or chronic institution so that the vote of the inmates or patients cannot be identified as a group. If there are 50 people in an old people's home they are put into a division with 200 others, perhaps, and it cannot be said that that home voted one way or the other.

This trend has been very very pleasant and the direction is completely in the other way. These people do not want these facilities for that reason.

Mr. WINCH: May I also ask a question on the same line, especially in reference to the advance poll. I believe the Vancouver General hospital is one of the largest hospitals in Canada, and you have there people in entirely different constituencies. You cannot have an advance poll in order to cover hospitals. In the Vancouver General hospital you may have around 2,000 patients who would lose their vote unless some arrangement were made.

Mr. CASTONGUAY: This has been studied by the committee on privileges and elections.

Mr. WINCH: Is this by act?

Mr. CASTONGUAY: It is by act but the problem is in an acute hospital with that number of patients, as you pointed out. There are people in such an institution from many many adjacent constituencies and even patients from outside.

Mr. WINCH: That is the reason why I bring it under the advance poll.

Mr. CASTONGUAY: The problem there is that the average stay of patients in these hospitals is ten days, so you may theoretically, from the date of dissolution to polling day, have six sets of patients going through the hospital and it is likely that 10 or 15 per cent of those are there on polling day and have been from the date of the writ.

Mr. WINCH: But you will have 2,000 patients in the hospital on polling day.

Mr. CASTONGUAY: Yes, but the only way the committee on privileges and elections think this can be handled is by a permanent list, absentee voting and postal voting. It cannot be handled under our present method of voting. I could go into details to explain this, but it does require a permanent list, absentee voting and postal voting. Where these facilities are provided in other commonwealth countries they have a permanent system of lists and absentee voting and postal votes.

Mr. WINCH: Therefore the reason it is not done is not that of costs but the present wording of the act?

Mr. CASTONGUAY: Because of the present electoral system.

Mr. SOUTHAM: I note under section 5 of this paragraph we are discussing on page 22 in connection with printing of ballot papers that the number of ballot papers printed in some electoral districts in 1962 and 1963 far exceeded the number of electors, and that an excess of more than 40 per cent was noted in 20 districts in 1962 and in 28 districts in 1963. The paragraph gives a specific instance of a constituency with 18,000 electors in which 26,400 ballot papers were printed in 1962 and 30,000 in 1963.

This does appear to be far in excess of what would be required. Who would be responsible for this overage, and has any action been taken to correct it?

Mr. CASTONGUAY: Yes, there has been action taken to correct it. In my printed instructions to returning officers we have a definite formula of the number of ballots to be printed.

You must remember that returning officers, competent as they are, are not trained in their position to the extent that they would like to be to discharge the services to the satisfaction of themselves and of the public. We give them a three day course in Ottawa and they have this book of some 300 pages which contains massive details. They are not trained in a way that a civil servant would be trained.

One reason why this may happen would be that some returning officers would have their ballots printed in books of 50. When they need say only, 160 ballots for a poll that means that they have to give them four books of 50; that is 200. There is also the other factor that a returning officer naturally in a sparsely settled area or in a rural area will tend to be generous in giving ballots to ballot boxes that are 50 or 100 miles away because, as you know, in the rural polling divisions there is an open list. If he sends the exact amount they may run short; the enumeration might have missed 40 electors. As you know, they may run short in the last hour and then it is a little too late to get a messenger to deliver ballot papers 100 miles away, and sometimes there are no roads and it is impossible to get there. The returning officers in polling stations somewhat distant from the office will tend to go beyond our requirements, and I do not blame them for doing it.

However, we have taken steps to ask them to be careful and to follow these instructions.

Mr. WINCH: Will you be going back to paragraph 3 or are you going through these seriatim?

The CHAIRMAN: I think we can deal with any as they come up.

Mr. WINCH: I would like to ask if Mr. Castonguay will comment on paragraph 3. I am not criticizing the practice because it may be absolutely necessary, but as a committee we are interested in a practice conforming to a statute and I notice in paragraph 3 the statement by the Auditor General that:

When authority could not be found for the making of such advances, we suggested to the chief electoral officer and to the comptroller of the treasury that, until such time as the Canada Elections Act might be amended, the claims should be paid by separate cheques issued from the office of the comptroller of the treasury at Ottawa, and sent direct to each person entitled to payment....

Then, in the penultimate paragraph you say:

The chief electoral officer, in his report to the Speaker of the House of Commons on the 1962 general election, recommended that the Canada Elections Act be amended to provide authority for the payment of an accountable advance to an election officer, limited to an amount deemed necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

Although the proposed amendment was not enacted, \$373,000 was advanced to returning officers for the payment of expenses in connection with the 1963 general election.

Mr. CASTONGUAY: The history of this particular provision hinges on the fact that this office of Chief Electoral Officer was created in 1920 and at that time and up to the 1949 election the Auditor General taxed and paid the accounts and did the audit of the accounts, and after the 1945 election he recommended in his report to parliament that standard, normal governmental accounting practices should be applied to the office of the Chief Electoral Officer, namely that the Chief Electoral Officer's office would tax the accounts, the Comptroller of the Treasury would do a pre-audit and pay the amounts and the Auditor General would then be able solely to do an audit.

It was only discovered in 1962 in the middle of the election by the Auditor General and the Comptroller of the Treasury that we had been advancing these cash advances to returning officers to defray their election expenses. These cash advances are absolutely necessary because I do not think any member of this committee would want the returning officer to finance the election out of his own funds.

As soon as this was discovered by the Comptroller of the Treasury and the Auditor General and myself it was agreed that we should continue this practice provided an amendment was put forward; and I put it in my report and the Auditor General put it in his. The committee on privileges and elections dealt with this and they approved and recommended to the House of Commons last year that this section C be amended. This amendment was prepared in conjunction with the Auditor General and the Comptroller of the Treasury.

We continued this practice in 1963 and I would hope that parliament would deal with this during this session before the next general election.

Mr. WINCH: Could you be liable for meeting a non-statutory claim?

Mr. CASTONGUAY: I am not sure about this. Perhaps the Auditor General would be able to answer that question.

Mr. HENDERSON: It is not contrary to the law, Mr. Winch, but it is the practical and sensible way to do it, and I think Mr. Castonguay's description of the background explains the reality of the situation.

I would join with him in hoping that the House of Commons will be able to deal with this.

Mr. WINCH: I think we should make a strong recommendation on this and other matters of a similar nature that have come to our attention for the protection of the civil servants.

Mr. STEFANSON: Mr. Winch was asking about people in hospital and whether there was any way in which they could vote.

I have a situation which is unique, I think, in that at certain times of the year the fishermen all go up to the lakes. If an election, for example, comes in June, then the fishermen are away. They still live within the constituency but they cannot vote because they are away fishing. Even when advance polls are set up in northern parts such as Grand Rapids they cannot vote at those polls because they have to vote at the advance polls in their own localities.

Am I correct in saying there is no way in which these people can vote except to establish a permanent voters list?

Mr. CASTONGUAY: This seems to be perhaps not the definite conclusion but at least my feeling and it seems to be the feeling of the committee on privileges and elections because the Representation Commissioner Act gives me the additional duty of making a study of permanent rolls and absentee votes and to report to parliament two years after a distribution has been completed.

Mr. WINCH: Two years after? So you cannot report now?

Mr. CASTONGUAY: Not now, no. I am asked in the act to do this; it is a statutory duty which is put on me.

Mr. WINCH: Until the House of Commons reports you cannot make a report?

Mr. CASTONGUAY: I have started my study on this even though I am only required to begin it after the completion of redistribution.

As you can well see, I have been involved in three different things. I am still Chief Electoral Officer; there is no new appointment there. I am still required under the Representation Commissioner Act to prepare alternative proposals for electoral plans in each province.

Mr. WINCH: But you can only report after—

Mr. CASTONGUAY: Two years after.

Mr. WINCH: If you have a brain wave or if you figure out something is advisable you still cannot make a recommendation to parliament?

Mr. CASTONGUAY: I do not think it is that simple, sir. It is generally agreed—and I cannot speak for the committee but it is the impression I gained from the committee—that it would take a permanent list.

We are unique; we are the only country that has no continuous electoral roll and prepares lists. These other commonwealth countries have all these other facilities. In the commonwealth of Australia, with six million electors, they have continuous electoral rolls and they have a staff of 325 civil servants to administer it and it requires 325.

May I also point out that in the county of Allegheny in Pennsylvania, which has received every award one can think of for good administration, for 700,000 electors they have a staff of 760. We have 203 constituencies and Australia has 122, and they require 325 people to deal with this. I would say offhand that it requires 1,000 civil servants to start off with.

May I point out to you in addition that the burden of registering is on the elector in Australia. They have compulsory registration. This reduces the cost. Here the responsibility of getting names is placed on the election officers, and this would have to increase the cost.

So this is a costly proposition, a very complex thing, and I could not do a study and make a recommendation in less than two years. I have had the good fortune of having an Australian loaned to my Representation Commissioner office to help make this study, and he has been with me since last May. He is a senior officer in the electoral office in Australia. We are progressing with this and I hope we will be able to report in less than two years, but I do not know.

I have to say that there is a proviso to that last statement I hope to be able to report in less than two years, but that is provided there is a new Chief Electoral Officer and no election in the interval and lots of provisions. It might take the full two years, depending on what I am required to do in the next two years.

Mr. STEFANSON: Then I am correct in assuming that there is no way in which these people can vote?

This is a very annoying situation because they are still within the constituency and they are 150 miles or more away; it is too far for them to come back to their own polls. I hope some step can be taken to correct this situation.

Mr. CASTONGUAY: During the last election you brought this to our attention and we did all we could to establish advance polls within the act.

Mr. STEFANSON: I have one other question relating to constables. I think constables are used very very little in our part of the country. To what extent are constables used?

Mr. CASTONGUAY: May I give you some background on constables?

I believe it was after the 1958 election that the Auditor General made some comment on the constables and the employment of constables in this committee

and this was referred to the committee on privileges and elections. As you know now, the deputy returning officer appoints his constable and it was felt the only way this would effectively be dealt with was if the power to appoint constables was taken away from the deputy returning officer and given to the returning officer, and then you could have some control.

The committee studied this matter in 1960. There is just a short part dealing with it and perhaps I may read the excerpt. This is in the proceedings of the standing committee on privileges and elections, Minutes and Proceedings and Evidence No. 12, Thursday, May 19, 1960.

Mr. Bell (*Carleton*): I would like to raise a matter in connection with subsection (10). 48 (10):

48. (10) Any deputy returning officer may appoint a constable to maintain order in his polling station throughout polling day; this authority, however, shall not be exercised unless the services of such constable are deemed absolutely necessary; a constable may be appointed only when there is actual or threatened disorder, or when it is likely that a large number of electors will seek to vote at the same time; generally, the appointment of one constable shall be made where more than one polling station is established in the same building or in adjoining buildings for a given polling division, to ensure the successive and prompt entrance of the electors into their proper polling station; constables shall be appointed and sworn in on form No. 55, which shall be printed in the poll book; every deputy returning officer who has appointed a constable, shall state his reasons for making such appointment in the space provided for that purpose on the polling station account.

It is quite obvious from a return that was made in the house that in certain sections of the country there are abuses in relation to the appointment of constables and that constables are being appointed where there is in fact no need for them. It is simply a sitting member arranging to extend a little additional patronage to his political machine. I think that ought not to go on. I think we should have constables wherever they are necessary, but it should be a situation where it is considered that there is likely to be a breach of the peace at a polling sub-division.

Mr. CASTONGUAY: It may be of some interest to the committee to know that in the 1957 election there were 7,785 constables and 44,055 polling stations; in 1958 there were 9,019 constables and 44,595 polling stations.

Mr. BELL (*Carleton*): As I recollect, there were some constituencies where there was a constable in virtually every poll. I believe in Essex East and Westmorland they had them in every poll. The two ridings which stick in my mind are two ridings in which I do not think they are likely to require such supervision, or that there will be any breach of the peace.

Mr. MONTGOMERY: On that point, I think it has been the practice—and I know in my own constituency which I can speak for—that I think it has been the practice as long as I can remember that there will be a constable at every poll, provincially and federally. There are very few of these polls that ever have any trouble; but I think it is because there is a constable there. It may be quite an expense. I will admit after the election is over you can say: well, you did not do anything today, you got your money easy. But nevertheless, I do not know how you can cut any out. I would not like to see constables cut out, and I think it has got to be left to the deputy returning officer.

Mr. CARON: I think they have an officer in almost every poll, but he acts as a doorman to keep people out when a person is voting. When

one has voted, he comes out and lets the other one in, and if there is a passageway the constable sees that the people do not go any further than the door of the passageway. He is really useful.

Mr. MONTGOMERY: I think so.

Mr. AIKEN: I do not know about Barrie, but I think in Parry Sound-Muskoka there are not more than one or two constables attending. It is only in very exceptional cases, because it has been the custom for a good many years in these particular polls. I do not think they are required any more in the polls where they are appointed than in other polls where they are not.

Mr. BELL (*Carleton*): The practice in my riding has been to appoint only where you have several polls in the one building and he is used as a director of traffic. I think we may have had four or five or six in Carleton.

Mr. CASTONGUAY: Nine.

Mr. HODGSON: I know in Lindsay and Haliburton they appoint a policeman and if you come in and say your name is Brown, he directs you to this box or that box.

Mr. BELL (*Carleton*): It is perhaps something we should not do, but it seems to me the returning officer should have this discretion. I do not want to become treasury-minded in the situation, but it is a totally unnecessary expense in some constituencies. I think we should try to stamp it out. I think we should appoint constables where they are needed, but we should not tolerate conditions where certain districts are rolling up election costs which are totally unnecessary.

Mr. PICKERSGILL: I think it would be a very dangerous thing to start interfering with the local mores in a very turbulent constituency like Victoria-Carleton. It is obviously necessary to have a constable in that poll. We have not got that situation in Bonavista-Twillington, but I certainly would not want to have the people of Victoria-Carleton run riot on election day.

Mr. MONTGOMERY: I think it is a matter which should be left to the deputy returning officers.

Mr. PICKERSGILL: I do not see how you can run it any other way. I do not kneel to anyone, even the parliamentary secretary of the Minister of Finance, in my desire to have the public purse.

The CHAIRMAN: Then is it the wish of all that we agree to the subsection as it stands?

Agreed.

Does that answer your question, sir?

Mr. STEFANSON: Yes, that answers it.

Mr. STENSON: Mr. Castonguay, have you ever made a study or given thought to people in hospitals?

Mr. CASTONGUAY: There was a private bill before the house this session. I do not want to appear to be repetitious, but it is still a question that this could only be done by a permanent list or absentee vote or postal vote. I could go into a great deal of detail on that but I do not think it is necessary.

We do look after the chronic institutions, the paraplegic places and other institutions for the treatment of chronic diseases, but for acute hospitals—and I have studied this with the hospital associations who have made representations to me. One hospital association withdrew their recommendation because they thought our act could not permit it. Then there is also this factor that while it is very difficult even under our present system of looking after chronic patients, some of the hospitals find it very disruptive to their patients. There

are two sides to this coin. So there is as much for as against this, and I think the only practical way to deal with it—and I am convinced of this—in acute hospitals is to provide for absentee or postal votes.

Mr. STENSON: There are two big hospitals in Peterborough and there is a lot of criticism because of our election act. These people are deprived of the vote.

Mr. CASTONGUAY: There would be more there than in urban areas because everyone in that hospital would be from the area. You would probably be looking at five or six constituencies.

I do not want to leave the impression with the committee that the standing committee on privileges and elections have not done anything because, certainly with advanced polls allowed to anyone absent, some of the patients who are going into hospital on a subsequent date to the advance polls have been taken care of.

Mr. STENSON: There is also the difficulty that they must take an oath that they will not be in the polling division on the day of the election. Sometimes they do not know when the hospital bed will be ready and they cannot take that oath. One man wanted to vote but he would not take the oath because he was not sure when the bed would be ready.

Mr. CASTONGUAY: There is a recommendation before that committee to allow people to vote at advanced polls for any reason. We have had the problems of polling day falling on religious holidays. In some faiths people are required to be at home on certain days. There is also the case you have brought up. There is a recommendation, which I am sure the committee is prepared to accept, that people be allowed to vote at advance polls for any reason.

Mr. FORBES: How many have you on your regular staff?

Mr. CASTONGUAY: Nineteen.

Mr. FORBES: During an election is this number increased?

Mr. CASTONGUAY: You must remember that there are 70,000 enumerators.

Mr. FORBES: I meant in your head office.

Mr. CASTONGUAY: It increases here, certainly. We have to tax over 200,000 accounts, so we would increase our staff by about 100 or more for a period ranging from one month to six months. The bulk of the temporary staff are taken on for a period of employment lasting about three weeks.

Mr. FORBES: Has the preparation of the new electoral boundaries increased your staff?

Mr. CASTONGUAY: This is a separate staff now. I have two offices now. I have my Chief Electoral Officer's office and I have my Representational Commissioner's office.

Mr. FORBES: How many staff have you on that?

Mr. CASTONGUAY: On that staff there are 15.

Mr. LEBLANC: My questions would be rather for the Auditor General, I think.

You say, Mr. Henderson, that instances were noted where the descriptions of boundaries after revision were identical. Do you have anything in mind when you mention that nothing has been done but the returning officers have been paid for revision and they did not do any revision?

Mr. HENDERSON: I do not think, Mr. Leblanc, I said they did not do any revision. The revisions were ordered at the three dates, and, as you see, the cost of each of the revisions was \$150,000. I then go on to say that instances were noted where the descriptions of boundaries after revision were identical to the descriptions of the polling divisions. I am not saying that the revisions were

not made, but it seemed a logical point at which to bring the matter to attention in view of the cost of those revisions. Perhaps Mr. Castonguay could elaborate on that.

Mr. CASTONGUAY: As I pointed out earlier, the mere fact that the polling division descriptions came back to us without any change does not imply that the returning officer had not had considerable work to do because, when I give my instruction, he is required to revise the polling division arrangements, he is required to consult political organizations in the district and to get suggestions and weigh them. He is required to study his polling division arrangements to see what changes are necessary. If there were a condition that you would only pay if a change were made, you would have changes for the sake of changes and this would be a very bad policy to follow. When these instructions go out, needless to say there are a lot of conjectures made and the returning officer has a lot of queries to answer. If a snap election takes place, then the returning officer is in a position to start work overnight. Some of them can just copy, but they are in a minority.

Mr. LEBLANC: I was worried because of the note that was put in there by the Auditor General. I knew that was a fact, that even if they do not make a change they have to revise it anyway, so they have to do some work on it. Some do not do any work at all.

Now, regarding No. 4, the rental of furniture for ordinary polling stations, the Auditor General says that in the audit of the 1962 election accounts, additional expenditures were noted for the cartage and rental of furniture without a corresponding reduction in the amounts paid to the landlords. Would that involve a large amount, or would it be only a small amount?

Mr. CASTONGUAY: I can answer this question. The problem arose in cities where they had voting compartments, such as Edmonton, Calgary, and Regina. They have voting compartments which are used at civic elections and they are the property of the civic government. It has been our policy that wherever these compartments are available we rent them from the city. I call this a package deal because the cities deliver them and call for them for a nominal fee of 50 cents. The arrangement is that they will not charge us for any repair of damages to these compartments. Prior to 1963 the tariff fee for the rental of space for polling stations included the polling screens. This is what the Auditor General referred to. The privileges and elections committee has approved cardboard voting compartments which we had made, and they will now be supplied from our office here in Ottawa to each constituency. They are very simple in design and they are made by the inmates of Kingston penitentiary. They cost around 54 cents a screen. They are a consumable item because the cost of getting that screen back and storing it would certainly offset the cost of the screen. The committee agreed on this and this takes care of that problem. The city has the responsibility of delivering them to each polling station and calling for them afterwards.

Mr. LEBLANC: I have another question, Mr. Chairman. In paragraph 7 on employment of constables, Mr. Henderson said "in two cases duplicate payments were made when two deputy returning officers each certified that the same person had acted as constable at his polling station". Did we get a refund for the duplicate payments?

Mr. CASTONGUAY: I did not do it for this reason. There is nothing specifically in the act that prevents a person from acting as a constable in polling stations. This is not an offence against the act. I do not tolerate this practice, but we have a pretty weak case for recovering this money. You have to say, of course, that it is not permissible under the act. The other thing is that you must remember that to carry out a general election you need the services and the co-operation of 200,000 people. Some of these people work for one day, some

of them work for six days. There are bound to be mistakes, and where there are errors of omission I prefer not to go to the expense of trying to recover these \$6 in a weak case—\$6 was the amount involved in both cases. It did not appear to me that I should take any action on this, and I did not take any action because I saw that this was not an error of commission; it was an error of omission, and I had a weak case in trying to recover the money. The deputy returning officers in both cases did this, I am sure, in good faith.

Mr. WINCH: Mr. Chairman, I would like to put a question which hinges on paragraph 4 concerning polling stations. In order to ask my question may I use the example of my own constituency in Vancouver East? This is a riding where without breaking any traffic laws or jumping any red lights I can go in my car from the north boundary to the south boundary in seven to eight minutes and from the east boundary to the west boundary in seven or eight minutes. However, I have 137 polling stations in my riding. In a few cases some of them are positively abominable. In some cases they are almost inaccessible. In every election that I have known I have had to jump into my car and hurry to the polling station because it was not providing any secrecy. My question regards both convenience and cost in a situation such as the one in my constituency. Why are there 137 stations set up instead of the system used in local elections? In the provincial elections school auditoriums and halls are used as centralized voting stations. That used to be the practice and I have never had any complaints about it. Could I ask for comments from the electoral officer?

Mr. CASTONGUAY: The act obliges the returning officer to establish a polling station for each polling division. Where the list of electors in a polling division exceeds 350, the returning officer is obliged by law to divide that poll and provide two polling stations.

Mr. WINCH: Can you not combine them in some instances?

Mr. CASTONGUAY: In some instances what we do find is the picture I am giving you. The second aspect is that I have noticed that suitable premises are becoming scarce. In many cities, for various reasons, the school board has co-operated with us. For instance, one province has put into its legislation that schools should be placed at our disposal. That appears in both the federal and the provincial legislation. The province of Quebec has co-operated and they have placed schools at our disposal. However, this presents a problem to the school board because they have some allocation in per diem attendance, and invariably when this happens the school board is forced to give a whole day for this purpose and this affects their grants in some areas.

In other provinces we have had the co-operation of school trustees and schools were placed at our disposal. The returning officer may place up to eight or nine polling divisions in a school. This practice has gradually come into the fore. The returning officer has the responsibility of selecting polling stations. It is his responsibility to find suitable premises. If he so wishes, he has the power to put ten polling stations within a premise. If it exceeds ten, he needs my approval. It is also within the power of the returning officer to centralize up to ten polling stations.

Mr. WINCH: I would like consideration given to this, both as regards expense and convenience.

There is one other reason. There are a few abominable and inaccessible polling stations and I would say they are there because political partners to a party in power got together. The sooner we get away from that thing, the better it is going to be.

Mr. SOUTHAM: Mr. Chairman, returning to the subject raised a little while ago by Mr. Forbes relating to minimum salaries paid to returning officers, I note that under paragraph 49, subparagraph 8, the Auditor General has, under the heading of duplicate charges, described that in the 1963 election payments made to returning officers varied from a minimum of \$1,500 to \$8,600.

He goes on to say "Cases were noted in the audit of the election account where payments at the rate of \$12 per day had been made to other persons, classed as election clerks and messengers, for selecting enumerators, deputy returning officers and polling stations. Normally these duties are considered to be part of the function of the returning officer". There is quite a wide variation between the two sums there. Are there any instances where you had such a wide variation?

Mr. CASTONGUAY: In all the general elections in which I have been involved appointments of returning officers have never been made on the day of the dissolution or even in the next two days following the day of dissolution. So that this man who gets this appointment cannot possibly run his electoral district in the same way that a returning officer who was appointed six months before can. The latter man has had the time to organize his district and make his comments. This happens in rural areas, not in urban areas. The returning officers in these particular circumstances cannot possibly get around to selecting enumerators. They have to have messengers. For a person such as this it becomes an organized chaos right up to polling day. He needs extra help and he needs messengers. Some returning officers' health at the time of an election is such that they cannot travel. I therefore authorize that in such cases. However, in most of these cases you will find that the returning officer has had to jump head first into the election.

Mr. SOUTHAM: Would these cases be exceptional?

Mr. CASTONGUAY: Yes, complete exceptions.

Mr. SOUTHAM: There is an interesting point here. I notice Mr. Henderson pointed out, under duplicate charges that there are cases of duplication of payments for services.

Mr. CASTONGUAY: This is where it would happen.

Mr. McMILLAN: I would like a question answered on subparagraph 8. I think you have already answered it in part. Is every effort made to collect where there have been duplicate charges?

Mr. CASTONGUAY: Yes. There was one returning officer at one election who appointed something like twenty deputy officers, and they were returning officers and poll clerks. This was inexcusable and I recovered \$500 from them.

Mr. McMILLAN: I see under subparagraph 6 a comment about election clerks living in their electoral district.

Mr. CASTONGUAY: This does not refer to the electoral district but to the same location as the one in which the returning officer resides. You see this in rural areas. For instance in the Northwest Territories the returning officer is responsible for 1,250,000 square miles, and we have to cover the four corners of that place. I therefore authorize the appointment of additional election clerks. In this instance the Auditor General points out that you may have two counties in a large electoral district and it may be advisable because of distances to have an election clerk in the other county from the returning officer. I therefore authorize it on that basis. Again let me say this is an exception. I do not encourage it because I think that in compact districts they should be in the same place.

Mr. McMILLAN: Are these clerks payable under the act?

Mr. CASTONGUAY: Yes, under the tariff of fees approved by the governor in council.

Mr. CARDIFF: Mr. Chairman, under subparagraph 5 I see that you have attributed almost double the number of ballots that is necessary for that particular poll or district. Why is that?

Mr. CASTONGUAY: I think I explained it.

The CHAIRMAN: That was brought up and it will appear in the minutes. It was dealt with specifically. Are there any other questions at this time? If not, I am sure the committee will want me to thank Mr. Castonguay for appearing here and for being very patient in his answers which he has given to us and which I think leave us more informed not only as to what are the problems in the Election Act but as to his problems as well. We thank him for his attendance and we appreciate his presence here.

Mr. WINCH: I hope I misinterpreted a statement a little while ago. I rather gathered an impression that in your two capacities, to do one job you have to get out of the other. I hope it is incorrect as I think all members would raise hell in the House of Commons if you did not carry on your excellent work as Chief Electoral Officer.

Mr. CASTONGUAY: There is a provision in the Representation Commissioner Act for hiring a new Chief Electoral Officer, but he is responsible to me in elections, and I am responsible to the house.

Mr. WINCH: I would like to be able in the future to pick up the telephone and call you if I have any problems.

Mr. CASTONGUAY: You can still call me.

The CHAIRMAN: Gentlemen, it is a quarter to eleven. Would you like to carry on with some of the paragraphs which we still have to deal with before we complete Mr. Henderson's report? We might now proceed for about a half an hour more.

Mr. HENDERSON: We completed paragraph 110, so now we will continue on page 70 and proceed with paragraph 111. It is headed liabilities. We have dealt with the assets on the statement of assets and liabilities, and we are now moving to the liabilities section. It reads as follows:

111. The following table lists the liabilities at March 31, 1963 by main headings in the statement of assets and liabilities in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1961	March 31, 1962	March 31, 1963
Current and demand liabilities	\$ 1,147,561,000	\$ 1,234,081,000	\$ 1,631,338,000
Deposit and trust accounts ..	239,667,000	266,624,000	225,203,000
Annuity, insurance and pension accounts	3,955,510,000	4,245,942,000	4,747,017,000
Undisbursed balances of appropriations to special accounts	104,493,000	115,135,000	119,952,000
Deferred credits	79,073,000	94,991,000	107,739,000
Suspense accounts	8,618,000	5,305,000	6,055,000
Unmatured debt	16,067,915,000	16,945,736,000	17,961,836,000
	<u>\$ 21,602,837,000</u>	<u>\$ 22,907,814,000</u>	<u>\$ 24,799,140,000</u>

As you know, these sections are explanatory ones with respect to the different items appearing on the statement of assets and liabilities. With your permission I will go through them and you can stop me with any questions as we move along.

Paragraph 111 lists the liabilities at the close of the last fiscal year by the main headings in this statement.

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112. *Current and demand liabilities.* The balances comprising this item in the statement at March 31, 1963, in comparison with the corresponding balances at the close of the two previous years, were:

	March 31, 1961	March 31, 1962	March 31, 1963
Non-interest bearing notes payable to the International Monetary Fund and the International Development Association	\$ 383,660,000	\$ 372,032,000	\$ 757,284,000
Accounts payable	221,396,000	280,711,000	267,364,000
Outstanding Treasury cheques	251,741,000	265,658,000	266,409,000
Interest accrued	154,016,000	174,601,000	196,974,000
Other balances	136,748,000	141,079,000	143,307,000
	<u>\$ 1,147,561,000</u>	<u>\$ 1,234,081,000</u>	<u>\$ 1,631,338,000</u>

Paragraph 112 breaks down the current and demand liabilities in the figures shown in the previous tabulation.

113. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1963 in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1961	March 31, 1962	March 31, 1963
Deposits by Crown corporations	\$ 19,400,000	\$ 24,175,000	\$ 30,004,000
Indian trust funds	28,516,000	28,523,000	28,877,000
Post Office Savings Bank ...	28,513,000	27,365,000	25,880,000
Contractors' holdbacks	15,365,000	17,793,000	17,724,000
Korean operations pool	16,117,000	16,117,000	16,117,000
Contractors' security deposits	21,804,000	18,003,000	13,025,000
Canadian Pension Commission (Administration trust fund)	10,980,000	12,087,000	13,024,000
Guarantee deposits	13,758,000	10,403,000	12,505,000
Instalment purchase of bonds by public service employees	11,845,000	12,416,000	12,297,000
Other balances	73,369,000	99,742,000	55,750,000
	<u>\$ 239,667,000</u>	<u>\$ 266,624,000</u>	<u>\$ 225,203,000</u>

The accounts of the Korean operations pool are maintained by the Australian government and record the expenditures incurred by the commonwealth countries which had participated in the Korean war, and the apportionment of these expenditures among the countries according to their respective shares. The balance of the account, as shown in the above table, represents the amount available towards settling the remainder of Canada's share of the expenditures when all other participating governments have submitted their billings to the pool and a final accounting is made.

The \$55,750,000 shown for "other balances" at March 31, 1963 represents the total of 82 balances, including: National Harbours Board special accounts, \$7,855,000; Canadian National Railways income deficit account, \$7,635,000; veterans' trust funds, \$7,276,000; army benevolent fund, \$6,013,000; United States of America, \$5,902,000; deferred pay of armed forces personnel, \$3,196,000; common school funds, \$2,678,000; and national research council special fund, \$2,013,000.

Paragraph 113 lists the deposit and trust accounts which are carried on the statement, and there is some explanatory data at the top of page 73 regarding some of these.

114. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1963, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1961	March 31, 1962	March 31, 1963
Government annuities	\$ 1,199,123,000	\$ 1,235,305,000	\$ 1,264,436,000
Public service superannuation account	1,468,848,000	1,586,929,000	1,724,116,000
Canadian forces superannuation account	1,155,333,000	1,279,239,000	1,605,797,000
Other balances	132,206,000	144,469,000	152,668,000
	<hr/>	<hr/>	<hr/>
	\$ 3,955,510,000	\$ 4,245,942,000	\$ 4,747,017,000

The following is a summary of the transactions in the *government annuities account* during the year under review:

Balance, April 1, 1962		\$ 1,235,305,000
Add:		
Premiums received	\$ 37,532,000	
Interest credits	47,415,000	
	<hr/>	84,947,000
		<hr/>
		1,320,252,000
Deduct:		
Vested annuity and commuted value payments and refunds	55,399,000	
Transfer to Revenue of the excess over Fund valuation	417,000	
	<hr/>	55,816,000
		<hr/>
Balance, March 31, 1963		\$ 1,264,436,000

A summary of the transactions in the *public service superannuation account* during the year ended March 31, 1963 is as follows:

Balance, April 1, 1962		\$ 1,586,929,000
Add:		
Contributions by participants	\$ 68,401,000	
Contributions by government	53,966,000	
Interest credits	66,362,000	
Other credits	274,000	
	<hr/>	189,003,000
		<hr/>
		1,775,932,000
Deduct:		
Annuity payments	43,586,000	
Withdrawals of contributions	7,564,000	
Other charges	666,000	
	<hr/>	51,816,000
		<hr/>
Balance, March 31, 1963		\$ 1,724,116,000

A comment is made in paragraph 124 regarding the composition of the balance at credit of this Account.

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The following is a summary of the transactions in the *Canadian forces superannuation* account during the year ended March 31, 1963:

Balance, April 1, 1962		\$ 1,279,239,000
Add:		
Contributions by participants	\$ 34,458,000	
Contributions by government	58,103,000	
Interest credits	53,085,000	
Actuarial adjustment (contra, "deferred charges" account)	198,549,000	
Other credits	314,000	
		<u>344,509,000</u>
		1,623,748,000
Deduct:		
Annuity payments	9,915,000	
Gratuities and withdrawal allowances	7,968,000	
Other charges	68,000	
		<u>17,951,000</u>
Balance, March 31, 1963		<u>\$ 1,605,797,000</u>

A comment is made in paragraph 125 regarding the actuarial adjustment in this Account during the year and the composition of the balance at credit of the Account at the year-end.

Included in the \$152,668,000 shown for "other balances" at March 31, 1963 in the table given above with respect to the item "annuity, insurance and pension accounts", is the \$14,636,000 uninvested portion of the unemployment insurance fund on deposit with the receiver general. A summary of the transactions in the fund during the year under review, in comparison with the corresponding amounts for the two previous fiscal years, is given in paragraph 181.

Paragraph 114 shows the composition of the liability figures shown for annuity, insurance and pension accounts, which you will recognize. This is followed by a summary of the changes during the year. You will see them set out on page 73 and page 74, that is to say the money that is taken in and the payments that are made out of the various superannuation accounts.

115. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances comprising this item in the statement of assets and liabilities, compared with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1961	March 31, 1962	March 31, 1963
Colombo Plan Fund	\$ 67,533,000	\$ 77,626,000	\$ 85,325,000
Railway Grade Crossing Fund	34,050,000	33,754,000	26,703,000
National Capital Fund	2,810,000	3,660,000	6,776,000
National Centennial Fund ..			1,000,000
Other	100,000	95,000	148,000
	<u>\$ 104,493,000</u>	<u>\$ 115,135,000</u>	<u>\$ 119,952,000</u>

During the year ended March 31, 1963 an amount of \$41,500,000, provided by Department of External Affairs vote 55, was credited to the account for the Colombo plan, while expenditures totalling \$33,800,000 were charged to the account for aid given to countries in South and South-East Asia.

Amounts totalling \$5,833,000, provided under section 265 of the Railway Act, c. 234, R.S., and Department of Transport vote 212, were

credited to the account for the railway grade crossing fund during 1962-63, while expenditures totalling \$12,884,000 were incurred in aiding in the cost of installing protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During the year ended March 31, 1963 an amount of \$8,616,000, provided by Department of Public Works vote 220, was credited to the account for the national capital fund, while amounts totalling \$5,500,000 were charged to the account for payments to the National Capital Commission to finance the cost of capital projects approved by the governor in council.

A comment regarding the \$1,000,000 at the credit of the national centennial fund at March 31, 1963 is made in paragraph 151 of this Report.

Paragraph 115 is a listing of the undisbursed balances of appropriations to special accounts, and there is an explanation given regarding these. You will notice there the national centennial fund, appearing for the first time at March 31, 1963. I deal with that further on in the report.

116. *Deferred credits.* The following is an analysis of this item at the close of the 1962-63 fiscal year and the two previous years:

	March 31, 1961	March 31, 1962	March 31, 1963
Deferred interest on loans to The St. Lawrence Seaway Authority	\$ 19,427,000	\$ 33,716,000	\$ 49,388,000
Deferred interest on loans made under the United Kingdom Financial Agree- ment Act, 1946	44,174,000	44,174,000	44,174,000
Credits arising from the re- cording of agreements of sale of crown assets	9,955,000	8,772,000	6,743,000
Equity in agency account of Crown Assets Disposal Cor- poration	4,929,000	7,242,000	5,884,000
Other balances	588,000	1,087,000	1,550,000
	<u>\$ 79,073,000</u>	<u>\$ 94,991,000</u>	<u>\$ 107,739,000</u>

The only significant change during the year was the increase of \$15,672,000 in the deferred interest on loans to The St. Lawrence Seaway Authority. This deferred interest is payable by the Authority over a 46-year period commencing in 1964, along with repayments of principal (see paragraph 158).

Paragraph 116 gives an analysis of the item headed deferred credits. As I say, the only significant change during the year was the increase of \$15,672,000 in the deferred interest on loans to the St. Lawrence Seaway Authority. This deferred interest is payable by the authority over a 46-year period commencing in 1964, along with repayments of the main portion of the debt, in other words they did not have the money to pay the interest so the interest was deferred, and to that extent capitalized with the principal amount of the debt.

We deal of course with the St. Lawrence Seaway further on in the report under the heading of crown corporations.

117. *Suspense accounts.* There was no appreciable change in this item on the liabilities side of the statement during the year ended March 31, 1963. The year-end figure of \$6,055,000 included balances of \$1,358,000 for the unclaimed cheques account and \$1,122,000 for the national defence replacement of materiel account. During the year, credits to

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the latter account totalled \$840,000 for the proceeds of sales to other countries, pursuant to section 11 of the National Defence Act, while an amount of \$1,114,000 was charged for the procurement of replacement materiel.

118. *Unmatured debt.* A summary of the unmatured debt outstanding at March 31, 1963, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1961	March 31, 1962	March 31, 1963
Bonds			
Payable in Canada	\$ 14,002,751,000	\$ 14,930,571,000	\$ 15,385,847,000
Payable in London	31,989,000	31,990,000	34,584,000
Payable in New York	98,175,000	98,175,000	376,405,000
	<u>14,132,915,000</u>	<u>15,060,736,000</u>	<u>15,796,836,000</u>
Treasury bills (not exceeding 180 days)	1,935,000,000	1,885,000,000	2,165,000,000
	<u>\$ 16,067,915,000</u>	<u>\$ 16,945,736,000</u>	<u>\$ 17,961,836,000</u>

The increase of \$455 million in the debt payable in Canada in the amount by which new borrowings of \$3,834 million during the year exceeded redemptions of \$3,379 million of prior issues. Canada savings bonds accounted for \$1,712 million of the new borrowings and \$1,185 million of the redemptions.

The increase of \$278,230,000 in the bond debt payable in New York resulted from a new security issue in the principal amount of \$270,000,000 due October 15, 1987, with interest at 5%, together with a year-end adjustment to the ruling rate of exchange.

Issues payable in London were valued on the basis of £ 1 Sterling = \$3.027 Canadian while those payable in New York were valued at \$1 U.S. = \$1.08108 Canadian.

It has always been the practice to include treasury bills and bonds maturing within the ensuing fiscal year in the amount shown for "unmatured debt" along with issues maturing at later dates. In addition to treasury bills of \$2,165,000,000 shown in the above summary as maturing within 180 days, the following issues, all payable in Canada, fall due within the current fiscal year:

Loan of 1960 due April 1, 1963	\$ 12,802,000
Loans of 1961 and 1962 due April 1, 1963	300,000,000
Loans of 1961 due June 1, 1963	275,000,000
Canada Savings Bonds of 1952 due August 1, 1963	19,203,050
Eighth Victory Loan due October 1, 1963	223,020,200
Loan of 1960 due December 15, 1963	300,000,000
Loan of 1963 due February 1, 1964	125,000,000
	<u>\$ 1,255,025,250</u>

Net Debt

119. With the liabilities amounting to \$24,799,140,000 (paragraph 111) and the assets to \$10,879,370,000 (paragraph 100), the net debt at March 31, 1963 was \$13,919,770,000. The following is an analysis of the net debt account for the year under review:

Balance, April 1, 1962	\$ 13,228,137,000
Add—Deficit for the fiscal year 1962-63:	
Expenditure	\$ 6,570,342,000
Revenue	5,878,709,000
	<u>691,633,000</u>
Balance, March 31, 1963	<u>\$ 13,919,770,000</u>

Paragraph 119 shows the net debt position, and then reference is made to the contingent liabilities.

Contingent Liabilities

120. A note on the liabilities side of the statement of assets and liabilities gives the totals of the several classes of contingent liabilities outstanding at the year-end and makes reference to the appendix to the public accounts (Volume I, page 180) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts which were outstanding at March 31, 1963, in comparison with the corresponding amounts at the close of the two preceding years:

	March 31, 1961	March 31, 1962	March 31, 1963
Insured loans made by approved lenders under the National Housing Act, 1954 \$	3,017,404,000	\$ 3,640,000,000	\$ 4,123,000,000
Railway securities guaranteed as to principal and interest	1,672,634,000	1,636,100,000	1,381,361,000
Deposits maintained by chartered banks in Bank of Canada	656,295,000	696,008,000	741,870,000
Guarantees under Export Credits Insurance Act, Part I	109,934,000	291,700,000	333,646,000
Loans made by chartered banks to Canadian Wheat Board	125,558,000	113,555,000	80,331,000
Other contingent liabilities of determinate amounts	89,783,000	66,299,000	73,998,000
	<u>\$ 5,671,608,000</u>	<u>\$ 6,443,662,000</u>	<u>\$ 6,734,206,000</u>

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under national housing acts prior to the 1954 act.

The main contingent liabilities would determine amounts that were outstanding. There are a number of guarantees existing all the time with respect to various loans, securities and deposits. A good example of the guarantees is shown under the Export Credits Insurance Act, part I.

Comments on Assets and Liabilities

121. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

We then turn to the comments I have on the assets and liabilities under paragraph 121.

122. The statement of assets and liabilities at March 31, 1963 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the public accounts:

"With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are

held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

"On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule to the statement of assets and liabilities."

The comment was made in last year's report (paragraph 139) that, while the statement of assets and liabilities may seem to correspond in appearance to the balance sheet of a large commercial undertaking, it is important for the reader to understand that it is not a balance sheet within the generally accepted meaning of the term. This is because the statement in its present form omits a number of items which would normally appear as assets on a commercial sheet, while at the same time including others which are of doubtful value. Similarly, certain items appear as liabilities which are not generally found as such in commercial practice. The showing of the excess of liabilities over net assets as a "net debt" item on the assets side of the statement is confusing, and in our view the term would be more appropriately used to describe the net result shown by a statement exhibiting the gross debt, less recorded assets, at the termination of the fiscal year.

Over the years, as was mentioned in last year's report, the audit office has subscribed to the view that little advantage would be gained by attempting to convert the central accounting system of the government from the cash basis to the accrual basis. It has recognized that the executive must know at all times what funds are required to be raised to meet expenditures expected to come in course of payment within the fiscal year. Parliament in turn must always be basically interested in examining the country's financial needs in terms of cash required when considering budget proposals and estimates of proposed expenditures.

However, as will be evident from some of the following comments in this section of the report, we believe that the statement and its contents could be improved from the standpoint of clarity and presentation so as to achieve maximum disclosure of information for the benefit of parliament and the public.

Under paragraph 122 I give a rather oversimplified explanation of the nature of the statement of assets and liabilities which is often described as the balance sheet of Canada. I felt it was useful to do this because an increasing amount of interest is being shown as to the manner in which the statement of assets and liabilities is prepared. As I think we discussed at an earlier meeting, it is prepared on the basis of the cash accounting prin-

ciple as distinct from the accrual accounting one which you find in the case of crown corporations. I believe it is probably unnecessary to go further at this time unless there are further questions.

123. *Accounts receivable.* As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the statement of assets and liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding total at the close of the preceding year (other than with respect to balances receivable by the taxation division of the Department of National Revenue) is given in the several departmental sections of Volume II of the public accounts. There is, however, no one place in the public accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. We suggested in last year's report that it would be informative to parliament were an appendix giving this information included in the public accounts in future.

The following summary of accounts receivable includes the totals given in the departmental sections of the public accounts at March 31, 1963 together with totals of balances receivable as at February 28, 1963 by the taxation division, as provided to us by that Division:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 1,184,198	\$ 736,331	\$ 36,322	\$ 1,956,851
Citizenship and Immigration	67,925	256,733	186,346	511,004
Defence Production	1,115	1,911	259,329	262,355
Finance	100,104	8,495	607	109,206
Justice	203,401	129	18,841	222,371
National Defence	4,266,901	2,170,985	217,913	6,655,799
National Health and Welfare	698,189	344,815	193,051	1,236,055
National Revenue—				
Customs and Excise Division	7,923,513*		2,229,997*	10,153,510
Taxation Division	160,637,394*		21,640,427*	182,277,821
Northern Affairs and National Resources	99,333	298,870	25,055	423,258
Public Works	713,797	200,324	140,536	1,054,657
Royal Canadian Mounted Police	311,405	10,904	24,489	346,798
Trade and Commerce ...	119,620	8,929	7,784	136,333
Transport	3,791,841	3,734,192	30,526	7,556,559
Veterans Affairs	3,817,265	2,420,500	800,216	7,037,981
Other departments	213,054	85,614	51,245	349,913
	<hr/>	<hr/>	<hr/>	<hr/>
	\$184,149,055	\$ 10,278,732	\$ 25,862,684	\$220,290,471

*These totals relate to both current and previous years.

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The accounts receivable totals shown in the above table were after writing off the following uncollectable debts of \$1,000 or less deleted from the accounts during the year under the authority of section 23 of the Financial Administration Act:

External Affairs	\$ 14,511
National Defence	22,318
National Revenue—	
Customs and Excise Division	328,797
Taxation Division	813,224
Transport	15,655
Veterans Affairs	95,867
Other departments	16,568
	<hr/>
	\$ 1,306,940

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the statement of assets and liabilities, they are nonetheless debts due to the crown, and their accurate recording and ultimate collection are primarily responsibilities of the departments concerned. While we have again found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this does not apply in the case of some departments where accounts receivable as such are not an important factor. We continue to believe, as was mentioned in last year's report, this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to reduce the possibility of accounts being tampered with and collections misappropriated.

Under paragraph 123 I listed the accounts receivable, and this is the second time I have shown this listing in my report largely because there is no one place in the public accounts where information regarding the individual departmental totals and the substantial, over-all total of accounts receivable, is available. I have made the suggestion, with which you concurred in your sixth report on October 20th of this year, that there should be an appendix or statement giving the over-all picture of the accounts receivable placed in the public accounts, and your recommendation here ties in with the consideration currently being given to this by Mr. Ryan's subcommittee on the form and content of the public accounts.

This is something I suggest should be included as distinct from things you may decide to take out. The accounts receivable shown here disclose for the first time—actually the first time was in 1962 and it appears here for 1963 also—the unpaid accounts due to the income tax division. You will see that the figure is very substantial at \$182,277,000. The income tax division is in the habit of taking its figures off at periodic intervals, for example February 28th rather than March 31st. With the adoption of your recommendation that some information be given on these accounts in an appendix, in the public accounts the position of the unpaid taxation division accounts receivable will thus appear in the public accounts each year in future. There are of course a number of write-offs, and a summary of these is given on page 80. You will see there the departments and the extent of the write-offs. You will also see the size of the write-offs for the Department of National Revenue.

I then deal with the importance of improving the system of internal control with regard to the supervision of these accounts receivable and particularly those that were kept on a memorandum basis. Again this was a point we dis-

cussed in the 1962 report and on which the committee has already acted. I think I am correct in saying it appeared in the sixth report, 1964. We discussed this when Mr. Bryce was here, and you joined in agreeing with the comment I had made.

124. *Public Service Superannuation Account.* In paragraph 144 of last year's report and also in earlier reports reference was made to the extra-statutory "bookkeeping entries" aggregating \$450 million which were made in 1951-52 and 1960-61 in order to increase the balance at credit of the public service superannuation account to the amount of the currently estimated actuarial liability. The offsetting debits were recorded in an "asset" account captioned "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

In the years 1951-52, 1952-53 and 1956-57 portions of the 1951-52 deferred charge of \$312 million (in the amounts of \$98 million, \$25 million and \$50 million, respectively) were written off to expenditure, leaving a balance of \$139 million at March 31, 1957. This was increased to \$277 million in 1960-61, when a further entry was made to the credit of the public service superannuation account following the actuarial valuation made as of December 31, 1957.

In previous years' reports, we have expressed the view that the public service superannuation account should have been credited (in addition to amounts contributed by participants) only with amounts provided by section 32 of the Public Service Superannuation Act or by special parliamentary appropriations—and that the offsetting bookkeeping entries should not have been made. In our opinion the actuarial deficiency remaining after credits provided for by parliament had been duly recorded should have been fully explained each year by means of a note to the statement of assets and liabilities. In his budget speech of June 13, 1963, the Minister of Finance indicated his concern at the magnitude of the actuarial deficiency.

The amount of the actuarial deficiency is, in fact, considerably greater than the \$277 million indicated on the statement of assets and liabilities. This amount continues to represent the estimated actuarial deficiency at December 31, 1957. However, in our 1961 report (paragraph 59) reference was made to the fact that, as mentioned in a note to the statement of assets and liabilities as at March 31, 1961, the balance was not adjusted to reflect the additional liability resulting from general salary and pay increases during 1960-61, estimated at \$80,700,000. Moreover, as mentioned in paragraph 52 of this report, no account has been taken of the considerable (though not officially estimated) additional actuarial liabilities that arose between April 1, 1961 and March 31, 1963 as a result of salary and pay increases granted from time to time to substantial groups of public service employees.

Section 33 of the Public Service Superannuation Act, 1952-53, reads as follows:

"The Minister shall lay before parliament at least once in every five years an actuarial report on the state of the superannuation account, containing an estimate of the extent to which the assets of the said account are sufficient to meet the cost of the benefits payable under this Act."

The Act is silent as to the remedy to be applied when a deficiency is found to exist, and no proposal for dealing with the actuarial deficiency was made when the report on the last actuarial valuation was tabled in the house on June 20, 1960. We understand that a further actuarial valuation as at December 31, 1962 has been undertaken and is expected to be completed by March 1964.

Paragraph 124 deals with the public service superannuation account. I suggest we need not spend much time on this nor on paragraph 125 which deals with the Canadian forces superannuation account.

125. *Canadian Forces Superannuation Account.* In the last three reports, references have been made to the non-cash or bookkeeping entry of \$326,300,000 which gave credit to this account in 1958-59, with an offsetting amount being charged to the "asset" account entitled "deferred charge—unamortized portion of actuarial deficiency—Canadian forces superannuation account".

In 1962-63, following an actuarial valuation as of December 31, 1960, adjusted to March 31, 1963, a further bookkeeping credit of \$198,549,000 was made, with an offsetting charge to the "asset" account referred to above, bringing the additional amounts thus included in the balance at credit of the account to a total of \$524,849,000.

The audit office view continues to be that amounts additional to contributions by members of the forces should be credited to the account only as provided for by parliament—either under section 24 of the Canadian Forces Superannuation Act or by special appropriation. As in the case of the public service superannuation account (paragraph 124) our view is that the actuarial deficiency remaining after recording credits provided for by parliament should be explained each year by means of a note to the statement of assets and liabilities.

The treatment to be given to these accounts by the executive will follow the statements made by the Minister of Finance to the house on March 6th last when he indicated how he was going to deal with the deficiencies that exist in these two superannuation accounts, and you have instructed me to set out the action taken in my next report. That is currently receiving attention as we complete our examination of accounts for the year ended March 31, 1964.

126. *R.C.M.P. Benefit Trust Fund.* Comments were made in last year's report (paragraph 146) and in that of the preceding year (paragraph 115) regarding the use made of this fund.

The major outlay from the fund during the year under review again took the form of a distribution to each member of the force. Individual payments of \$35, compared with \$30 in the preceding year, accounted for a total of \$214,000 out of the gross expenditure of \$216,000. Although it had been expected that the fund would be utilized to a greater extent for the making of loans and grants in appropriate circumstances, little demand for them has materialized and only \$315 was paid out on this basis during the year.

The fund had a balance of \$392,510 at March 31, 1963. In addition to cash resources of \$240,230 on deposit with the receiver general, and \$52,100 (par value) of Dominion of Canada bonds in like custody, assets included the \$98,350 balance of a loan to a members' recreational organization and \$1,830 in loans to individual members.

Paragraph 126 deals with the R.C.M.P. benefit trust fund, and as you see the fund is not being utilized to the extent that had been expected. In fact, there has been little demand for the making of loans and grants, and only \$315 was paid out of this fund in the year that we are reviewing. Paragraph 127 deals with your own retiring allowances account. As I said, in 1962 disbursements from this account exceeded receipts, resulting in a further reduction of \$133,000 in the balance of the account which amounted to \$1,295,000 at March 31, 1963.

However, substantial changes were made in this account in 1963-64, and I believe you will find some further comment on this in my next report.

Mr. CARDIFF: What was the reason for the deficit there?

Mr. HENDERSON: During the year the receipts were \$222,000 and the disbursements made from the account were \$354,000. It may interest you to know that there was a swing the other way in 1963-64 when the receipts rose to \$687,000 and the disbursements were only \$311,000, leaving a balance of \$1,671,000 at March 31, 1964. The reason would be directly traceable to the contributions of the members and correspondingly to the changes. It seems like a large swing and I do not have the individual particulars here, Mr. Cardiff, but we will be looking at this in connection with the 1964 report. It is a good question.

Mr. CARDIFF: I wondered if it was a case of the members failing to meet their responsibilities.

Mr. HENDERSON: No, I do not think it is that, sir.

Perhaps I should ask Mr. Chapman to explain this to you. He is my director in charge of this.

Mr. CHAPMAN: I think the explanation is that during the last several years there have been frequent elections, and as a result of those elections there has been a drain on the account with respect to pensions that became payable.

When the act was amended recently there was provision made that members contribute on the full amount of their indemnity, and in addition members had the privilege of electing to pay additional contributions in respect of previous sessions. As a result, fairly large amounts of contributions in respect of previous sessions have been paid or the members have elected to pay them in instalments, and those amounts have been matched by the government immediately.

In 1963-64, as Mr. Henderson has said, there have been considerably increased contributions and there has been no great increase in respect of pensions.

I think that sums up the situation.

Mr. SOUTHAM: Would a greater number of members becoming deceased cause these figures?

Mr. CHAPMAN: I do not think it is a matter of deceased members. After any general election if a number of members have not been re-elected there will be a proportionate increase in the amounts of pensions payable.

The CHAIRMAN: There will be casualties other than death.

Mr. SOUTHAM: I should have said political decease!

Mr. HENDERSON: Let us now turn to the crown corporation section which will be found on page 82, starting at paragraph 128. In this part of the report I show what the auditor's report is required to state; I set down all the corporations and the reporting ministers.

The CHAIRMAN: Before we go on to that, Mr. Henderson, I would like to ask a question and bring something to the attention of the committee, not for immediate action but for your thought and consideration.

At my request Mr. Slack, the clerk of the committee, checked the files to find which crown corporations have had their affairs made the subject of discussion in this committee since it became considerably active. According to my inquiry I think I am correct in saying—and Mr. Henderson can corroborate this—that the Atomic Energy people, the Polymer Corporation, the Crown Assets Disposal Corporation and the Canadian Broadcasting Corporation comprise the extent to which any of the crown corporations have had their accounts submitted for the consideration of this committee following the Auditor General's report.

If you will turn to the table of contents of this 1963 Auditor General's report you will see a number of crown corporations and in addition the Auditor General deals with certain other funds and authorities and boards. This involves corporations with assets in some cases of many hundreds of millions of dollars. It involves the expenditure of large sums of money, and in many instances it involves payments made at the instance of the parliament of Canada to these crown corporations.

It is my view—and I just throw this out for your consideration—that this committee might well give consideration not so much this year, because we are at the tag end of our deliberations, but certainly next year to having several of these crown corporations come before the committee or, if not the committee if our time will not permit, we should give some consideration to setting up and establishing a strong subcommittee which will be charged each year with the responsibility of dealing with the accounts of some of these crown corporations so that no more than four or five or six years will go by without each one of them having come before a committee or subcommittee.

I just throw that out and ask for your comments on it, Mr. Henderson. If any members of the committee feel it is a matter they would like to discuss, then please do so.

Mr. REGAN: I certainly agree with what you say, Mr. Chairman. I am of the opinion that perhaps we should, if time allows—and you are the best judge of that—have another opportunity to examine one or two of them this year. I will be particularly anxious to have the St. Lawrence Seaway Authority come before such a session. I would appreciate it if that opportunity presented itself.

The CHAIRMAN: The steering committee does propose in the next week or ten days to look at what work is left and what time we are likely to have. If time permits we certainly do hope that at least one of the crown corporations will come before us. It is a question of time and a question of logistics.

Mr. REGAN: This is one that has never been here, I believe.

The CHAIRMAN: No, it has never been here.

Mr. HENDERSON: You did ask for my corroboration, Mr. Chairman, and so may I say that you did mention that Atomic Energy of Canada has been before this committee: that is not so. However, you omitted to remind the members that the Canada Council has been before you and that, of course, is the subject of a separate reference from the house. There has also been the Export Credits Insurance Corporation.

Mr. FANE: Mr. Chairman, in paragraph 133 it is said that the Auditor General is not responsible for the auditing of these seven crown corporations that are mentioned. Can the Auditor General tell us why?

Mr. HENDERSON: The reason why he is not responsible is that the government appoints other auditors and there is no requirement that the Auditor General shall be the auditor, or else he is not appointed under the legislation.

The Financial Administration Act has a provision which states that the Auditor General may be appointed the joint auditor of such companies, but that was not followed in these cases. Accordingly, I do not have any responsibility for examining the accounts of these particular corporations.

Mr. FANE: It seems to me that when the Auditor General is charged with the auditing of government business he should do it all. He should be responsible for all of it. Do we have the authority to call these other special auditors before this committee, Mr. Chairman?

The CHAIRMAN: I would think if you called the crown corporation before you and questions came up which involved the auditor, our authority would certainly be wide enough to extend to the auditors.

Before I call on Mr. Rock I would like to ask this question of Mr. Henderson in the light of your question, Mr. Fane.

What is the practice in the commonwealth countries of Australia—which I think also has a large number of crown corporations—and India? Have you made any inquiries? Does the national auditor general participate to any extent in the audits of crown corporations in those two countries?

Mr. HENDERSON: Yes, he does, Mr. Chairman. I am speaking from memory. I did not bring those details with me, but substantially it is as follows. In the case of India we have recently had a visit from the Comptroller and Auditor General of India, and he told me he is responsible for all of the state corporations without exception, excepting that he may not carry out all the audits. Where the government appoints outside auditors because for one reason or another he cannot handle them, then that is done on recommendation and with the concurrence of the Auditor General. The working papers of the auditors and their methods of verification are shown to him. In other words, he has access to their working papers and to that extent, you might say, shares the responsibility.

In Australia, if I recollect rightly, it is rather more rigid than that. However, I would want to have the precise facts before me to verify these statements.

The CHAIRMAN: We might have a chance to ask you further questions when we are going through some of the corporations later on.

Mr. HENDERSON: Yes.

Mr. ROCK: Mr. Chairman, I have no more reason to ask questions, having now looked through the report.

The CHAIRMAN: Gentlemen, is there any more discussion on this general aspect?

If we are to discuss crown corporations at another meeting perhaps we should give a chance to the members to examine them, bearing in mind that we have already had the Canadian Broadcasting Corporation before us. Other crown corporations can be the subject of discussion and questioning when a particular item does happen to come up.

Is it your wish that we adjourn now? I know some of you have to go to the Defence Committee.

Agreed.

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 26

Public Accounts, Volumes I, II and III (1963)
Reports of the Auditor General to the House of Commons
1963

TUESDAY, NOVEMBER 10, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada, and Mr. A. B. Stokes
of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Gray,	Pilon,
Cameron (<i>High Park</i>),	Grégoire,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>),	Rock,
Crouse,	Leblanc,	Rondeau,
Danforth,	Legault,	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	Southam,
Fane,	Mandziuk,	Stefanson,
Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Grafftey,	Pigeon,	Winch—50.

M. Slack,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, November 10, 1964.

(40)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Francis, Gray, Harkness, Leblanc, Legault, O'Keefe, Prittie, Regan, Rock, Ryan, Stefanson, Stenson, Tardif, Tucker and Winch. (17)

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Mr. A. B. Stokes, of the Auditor General's office.

The Committee resumed consideration of the 1963 Report of the Auditor General.

It was agreed that the Chairman be authorized to name replacement members on the subcommittee on "Form of Public Accounts".

The Committee agreed to the cancellation of its Thursday, November 12th sitting.

The Auditor General read into the record a comprehensive statement relating to crown corporations and other similar public instrumentalities whose accounts are not examined by the Auditor General. He also explained the procedure in the Commonwealth countries, and was examined on his statement, assisted by Mr. Stokes.

Mr. Henderson then reviewed paragraphs 135 to 158 inclusive of his 1963 Report, *Crown Corporations*, and was examined thereon.

After discussion on the advisability of calling officials from several Crown Corporations, it was agreed that the Steering Subcommittee would consider this matter and report to the Main Committee.

The questioning of Mr. Henderson still continuing, at 11.05 a.m., the Committee adjourned until 9.30 a.m. on Tuesday, November 17, 1964.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, November 10, 1964.

The CHAIRMAN: Gentlemen, I see a quorum and the meeting will come to order. There are one or two matters which I want to bring up first. The first matter is with respect to the subcommittee on the form of public accounts. There are one or two members who will not be available for the completion of the proceedings. I attended the last meeting, and after a lot of hard work a report is now in the process of being born. I think that probably we will be able to bring it here in the not too distant future, but as we will have to have a sufficient number of members on the committee I will ask for authority to be able to appoint either one or two additional members in the place of those who will not be there. I know Mr. Southam, for example, is going to the NATO meeting and will be absent. I do not know who will be able to replace him but I would ask for authority to appoint someone.

Mr. WINCH: Yes, Mr. Chairman, it being understood that they will not make a complete review of all the work done in the committee.

The CHAIRMAN: I can give you my undertaking to brief them and to bring them up to date on what the committee has done. I understand that this authority is granted to me.

The other thing which has occurred to me is that as Wednesday is now a holiday, so far as the House of Commons is concerned, I am wondering if it is your wish that we might miss next Thursday's meeting. The preparation of a lot of reports is now being undertaken. We only have the survey of the crown corporations to complete, at which time we will have done all that the House of Commons has laid upon us as the burden for this year. I feel reasonably confident that even with the careful survey which we will see fit to make we will be able to do this a week from today, that is to complete our deliberations apart from the meetings in camera. Having in mind that a lot of members will be going to their homes on Wednesday, may I make the suggestion that we might perhaps miss Thursday's meeting? I assure you we will be drafting reports to present to you, but would you prefer to miss the Thursday meeting and come back a week from today to try to complete this? Has anyone any suggestions to make? I understand it is agreed.

Before we start with the crown corporations in specific terms, may I remind you that at the last meeting Mr. Fane posed a question to the Auditor General. He asked him why the Auditor General was not responsible for the audit of the seven crown corporations and other public instrumentalities which were listed in his report. I added to that question by asking him what was the practice in the other commonwealth countries with regard to the duties of the Auditor General on all crown corporations because, as I pointed out, this is a matter of some concern, having in mind the Auditor General's function, his position vis-à-vis the House of Commons and the extent to which parliament might, through his office, have some control over these crown corporations. He has prepared a fairly extensive memo. I am going to ask him, with your permission, to read this memo, and we might then have it put on the record as an appendix. Before we conclude our deliberations so far as this report is concerned, let me point out that members might like to discuss it to a larger extent a week from today. Mr.

Henderson could give us the benefit of his views on this question which was brought up at the last meeting.

Mr. HENDERSON: I would be glad to do so, Mr. Chairman. I do not think that the notes are so voluminous that they need to go into the proceedings in the form of an appendix. With your permission I will read them to you as I have them, and perhaps they could appear as part of the testimony, depending on whatever decision the secretary would like to make.

The CHAIRMAN: That is fine.

Mr. HENDERSON: You asked me what the situation was in Australia and in India. I spoke very briefly about this but I stated that I did not have detailed notes on this available as I did not come prepared to deal with this subject. I said that I would like to check my facts, which I have done.

In the case of Australia:

1. The audit of all wholly owned commonwealth authorities in Australia, whether board, commissions, corporations or public companies is the responsibility of the Auditor General. These include the Reserve (or Central) Bank, the Commonwealth Banking Corporation, shipping, airlines, commodity boards, etc., and the Australian National University. No private auditing firms are engaged as the external auditors.

2. Some of these authorities (e.g., Australian Coastal Shipping Commission, Coal Mines Insurance Limited and the Australian National University) engage private firms as internal auditors. In this capacity their responsibility is to the authority concerned to whom they report. However, in such cases the Auditor General is given the opportunity to comment on the program of internal audit which they follow and receives copies of the internal audit reports because, as explained under (1) above, he has the final responsibility for the audit.

India

1. The audit of government companies (joint stock companies where the states own at least 51 per cent of the capital stock) can only be carried out by private auditing firms selected and appointed by the government acting on the advice of the Auditor General.

The Auditor General has the following powers in all such cases:

- (a) To give directions to the private auditors regarding the manner in which the audit is to be conducted and instruction regarding any matters relating to the work.
- (b) To have a supplementary or test audit of the accounts conducted by such person or persons as he may authorize on his behalf and his independent observations and comments on the private auditors' reports have to be placed before the general meeting of shareholders.

2. In the case of Statutory Corporations (i.e., those established by act of parliament) such as Air India, Indian Airlines Corporation, Oil and Natural Gas Commission, the Auditor General of India is the sole and exclusive auditor. In certain exceptions, the audits are conducted by private firms appointed by the government but always on the advice of the Auditor General. All of the audit reports in such cases are laid before both houses of parliament.

Ceylon

1. The audit of all semi-government bodies is carried out by the Auditor General by statute.

2. In the case of autonomous and semi-autonomous bodies, the acts of parliament provide for the manner in which the audit is to be carried out, viz.:

Universities—by the Auditor General

Nationalized Activities—by the Auditor General who may employ the services of any qualified auditor or auditors to act under his direction

State Industrial Corporations—by auditors appointed by the minister responsible on the advice of the Auditor General. Statutes provide that the Auditor General has power to

- (a) direct manner in which the corporation's accounts shall be audited and to give auditor instructions;
- (b) conduct a supplementary or test audit by such persons as he may authorize, to require such information as he wishes, etc.

In the United Kingdom the comptroller and Auditor General does not have any audit responsibility for the nationalized industries—national coal board, railways, gas industry, electricity industry, aircraft corporations, etc. The acts setting up these bodies specify that the audits shall be carried out by auditors appointed by the minister. With respect to another class of undertaking (e.g., the sugar board and the legal aid fund) a dual system of audit is prescribed by the legislation. Commercial accountants are employed to audit these but they render their accounts to the comptroller and Auditor General and he is required to make whatever further examination he thinks fit and he himself is then required to certify and lay the accounts before parliament.

In Malaysia the Auditor General must be expressly appointed by law to audit certain statutory bodies, for example the Central Bank of Malaysia, the Malayan railway administration and the employees provident fund. There are, however, several independent authorities such as the land development authority, the housing trust, the rubber replanting board, the social and welfare services lotteries board, etc., where commercial auditors carry out the work. The Auditor General does review the audited statements of bodies like these and stated that where he has any query he raises it with the responsible ministry or department.

A somewhat similar situation exists in Jamaica. The audit provisions there relating to statutory organizations are not by any means uniform. The Auditor General is by statute the auditor of the Bank of Jamaica.

In Canada, different or varying arrangements apply to each of the seven exceptions listed in paragraph 133, so that in my answer to Mr. Fane's question I should refer to them separately.

As to the Bank of Canada, this is governed by the Bank of Canada Act, Chapter 13, R.S. 1952, as amended by Chapter 33, Statutes 1953-54. By section 25 (1) it is provided that the governor in council shall, on the recommendation of the Minister of Finance, not later than the 31st January in each year, appoint two auditors eligible to be appointed as auditors of a chartered bank, but not being members of the same firm, to audit the affairs of the bank, but if the same two persons or if members of the same two firms have been appointed under this section for two consecutive years, one such person or a member of his firm shall not be appointed for the period of two years next following the term for which he was last appointed. Thus the Bank of Canada's practice is similar to that employed by the chartered banks under section 61 of the Bank Act, which spells out the qualifications auditors of chartered banks must have to be eligible for appointment. In this connection it is interesting to note that under section 61 (18) of the Bank Act it is stated that where a

chartered bank carries on any of its operations in the name of a corporation controlled by the bank, the auditors of the bank shall be the auditors of the corporation and the bank must take all necessary steps to ensure that they are appointed auditors of that corporation. The purpose of this requirement is to ensure that the auditor of the bank has full knowledge of all of its operations wherever they may be, and it is therefore because of this that the auditors of the Bank of Canada are likewise the auditors of the Industrial Development Bank.

In the case of the Canadian National Railways, section 38 of the Canadian National Railways Act, Chapter 29, Statutes 1955, provides that a continuous audit of the accounts shall be made by independent auditors appointed annually by parliament, that they shall report annually to parliament and call attention to any matters that in their opinion require consideration or remedial action, and that they shall be paid by the railways such amounts as the governor in council approves. The auditors of the railway are also the auditors of the Canadian National Railway Security Trust. They are also the auditors of Trans-Canada Air Lines because section 13 of the Trans-Canada Air Lines Act provides that the accounts and financial transactions of the corporation shall be audited by the auditor appointed by parliament to audit the accounts of the Canadian National Railways.

The Canadian Wheat Board Act, Chapter 44, R.S. 1952, provides under section 7 (1) (b) that with the approval of the governor in council there shall be appointed a responsible firm of chartered accountants for the purpose of auditing accounts and records and certifying reports of the board.

The Central Mortgage and Housing Corporation Act, Chapter 46, R.S. 1952, provides under section 31 (1) that the minister, with the approval of the governor in council, shall appoint two auditors to hold office for a term not exceeding two years, to audit the affairs of the corporation.

It is pursuant to the foregoing legislation that private firms have been appointed the auditors of the seven institutions listed in paragraph 133.

The Financial Administration Act, under Part VIII dealing with crown corporations, provides as follows under section 77:

"77. (1) Where, in respect of a crown corporation

(a) no provision is made in any act for the appointment of an auditor to audit the accounts and financial transactions of the corporation, or
(b) the auditor is to be appointed pursuant to the Companies Act, the governor in council shall designate a person to audit the accounts and financial transactions of the corporation.

(2) Notwithstanding any other act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a crown corporation."

Although this provides that notwithstanding any other act the Auditor General is eligible to be appointed the auditor or a joint auditor of a crown corporation, only two cases exist at the present time where the Auditor General has been appointed the joint auditor of a crown corporation.

Members of the committee may recall that action was taken in this regard on the recommendation of the public accounts committee in 1961 in regard to the wholly-owned European subsidiary companies of Polymer Corporation Limited. Because the financial and accounting records of these subsidiaries are maintained at their offices in Switzerland, France

Belgium and the Netherlands, a private firm of accountants with offices in these countries carries out the audit work, based on work programs developed with me as the other joint auditor, and reports thereon to me in detail at the time I am completing the audit of Polymer Corporation in Sarnia and we are consolidating the accounts of this corporation and its subsidiaries.

As you know, Polymer accounts are submitted on a consolidated basis.

This arrangement has the advantage of saving the travelling costs which would otherwise be entailed were it necessary for my officers to visit these countries on a regular audit schedule. After examining the report of my joint auditor in these countries, we both sign and take the joint responsibility for the accounts of each of the subsidiaries, and I accept these without qualification in rendering my final certificate on the consolidated accounts of the corporation and its subsidiaries, which are then laid before parliament each year in the same manner as the accounts of each of the other crown corporations. The certificate I place thereon is my own and has always been unqualified.

The second case where I am a joint auditor is Expo '67. Under the Canadian Corporation for the 1967 World Exhibition Act, Chapter 32, Statutes 1963, section 17 requires that the accounts and financial transactions of the corporation are to be audited by the Auditor General of Canada and the Quebec provincial auditor, and the joint auditors are then required to report annually in a manner similar to that required by the Financial Administration Act in respect of other crown corporations.

I am pleased to tell you that these joint auditing arrangements are operating very satisfactorily so far as I am concerned, and I am sure that were my joint auditors present they would have no hesitation in saying the same to you.

The CHAIRMAN: Thank you, Mr. Henderson.

Gentlemen, you are now perfectly free to ask any questions of Mr. Henderson. However, without inhibiting any discussion now I think, in fairness to members of the committee who will have a chance to read this as it appears in the record, an opportunity will be given to them at our next meeting to ask any questions they wish. It is a very important question, and whether or not we make any recommendations it is something that the committee might want to explore.

Mr. FRANCIS: I would like to ask Mr. Henderson what is the theoretical justification for a private audit of a crown corporation in circumstances in which Mr. Henderson presumably does not have access to them. It bothers and concerns me as a principle.

Mr. HENDERSON: The justification for it? I suppose the proper answer to that would be that in view of the fact that it is permissible under the Financial Administration Act it has become the policy of successive governments to appoint private auditors in these cases.

Mr. FRANCIS: What is the advantage of a private auditor over your own services?

Mr. HENDERSON: That is a good question but perhaps one on which I should not express myself.

Mr. FRANCIS: I appreciate that you might hesitate but I want to go on record as saying that I do not think it is right as a principle. I think that any public institution or crown corporation should be accessible to the Auditor General, and I think that circumstances in which the Auditor General does not

examine books are wrong in principle. I think every public enterprise should be accessible to the Auditor General. This is my personal opinion and I would like to go on record as expressing it.

Mr. HENDERSON: I would like to add something to what you have said in this respect. Under the Financial Administration Act I am informed that I do have access to the records of these companies notwithstanding the fact that I am not the officially appointed auditor. However, in the accounting profession, as in other professions, there are ethical standards, and it would be only under direct instructions from you or from the Minister of Finance that I would feel I could ask to have access to their records. I think that would be the proper course to take. I enjoy long and happy relations with the private sector of my profession. I feel that that would be the proper course for me to take.

Mr. WINCH: There is just one question I would like to ask here. It has to do with the broad or general principle that the Auditor General is responsible to parliament, by statute or appointment for a crown corporation. This automatically means, as I think he put it, a consolidated report. Let us take for example the Polymer Corporation where there are four or five subsidiaries overseas. Can he then state, as he did, "I accept these without qualification", that is what private auditors overseas report to the Auditor General? He then added "thereby accepting full responsibility". I would like a further explanation on this because you have the responsibility of reporting on the parent body, and yet that includes subsidiaries on which you do not make any audit at all as far as your department is concerned. You say that you accept the reports from overseas on an unqualified basis and you accept the full responsibility.

Mr. ROCK: The joint responsibility.

Mr. HENDERSON: That is a very good question, and, as a matter of fact, at the time this arrangement was made in 1961 you may recall it was discussed at some length in the committee when the Polymer officials were before the committee. They had then established the subsidiaries abroad and had in fact proceeded to appoint an international firm of chartered accountants with offices in the various European capitals. Had that arrangement remained on that basis, leaving me as auditor for the parent company but not auditor for the subsidiaries, it would have, in accordance with accepted accounting practices, necessitated a reference by me to this fact in my certificate stating that the accounts of the subsidiary companies had been examined by other firms of auditors in these countries. However, by the same token it was felt, and I think the committee took the view and so did the officers of the corporation, that it would make for a smoother operation if the Auditor General were to share that responsibility with the private firm in the capacity of a joint auditor appointed under this provision of the Financial Administration Act because these are crown corporations whether they are in the Netherlands for example, or in Canada. I therefore take responsibility for their accounts, and delegate that responsibility to them to the extent that I see fit in my professional capacity because they are on the spot. It is a much more economical operation from the travelling standpoint to have them in these countries. They are more familiar than I with the tax and related law and legislation in these countries. As you know from your studies of the Polymer Corporation, it is an operation which requires continuous study.

And when they have completed their work, these joint auditors submit detailed reports directly to me as to how the work has been carried out, and what in effect they have had to consider and suggest by way of recommendation. Mr. Stokes is with me today. It is he who carries out the audit of Polymer Corporation for me and it may be of interest to you to know that last year he and I met with our joint auditors overseas in order to review their program of

activities in these countries. We may well, if occasion presents itself in the years ahead, be participating with them in some of the phases of this work. So it is not just a joint arrangement on paper. This is the type of judgment which many auditing firms have to be prepared to exercise in cases like this in adapting themselves to a particular situation. I am joint auditor of these firms in Europe, and I sign their statements as required by the authorities over there, and by the stockholders. I am, as you know, the sole auditor of the parent corporation.

Mr. WINCH: That is the very point. I do not question that this is done on a basis of efficiency and economy and so on. But what I cannot get through my head yet is that you sign as joint auditor.

Mr. HENDERSON: We are jointly and severally responsible.

Mr. WINCH: Yes, but the point is that you and your department do not actually make any audit. Yet you sign as auditors for operations of which you never make any audit. In so doing, according to your own terminology, you accept it on an unqualified basis, so therefore you accept the responsibility, because as far as you are concerned, with parliament there is only one report and one responsibility, and that is yourself.

Mr. HENDERSON: If there is anything in the accounts of these subsidiaries which my joint auditors report to me, and about which I may have any reservations, or facts I feel that the house should know, it is understood between us that I tell the house about them in my own report to the House. There may be instances come along in their reports when perhaps the journal vouchers were not approved for one month, or small points arise concerning the system of internal control needing overhaul which I may decide not to burden the house with at all. But this is how I have delegated the day to day audit work to the firms. I am perfectly satisfied with the competency of the firm in question, and with the program of work they follow, because we collaborate in preparing it. Their reports to Mr. Stokes, and to me are very detailed. Periodically, if we have occasion to be overseas, we will sit down and visit with them. This about sums up the way we operate. The only alternative open to me would be to do the complete audit, and to dispatch teams to these countries twice a year.

The CHAIRMAN: Perhaps Mr. Stokes might care to make a comment.

Mr. A. B. STOKES (*Supervisor, Auditor General's Office*): In the course of the audits which may be performed by our colleagues overseas, questions may arise which they will direct to us in order to obtain our opinion as to certain transactions. So we feel that we are kept informed throughout the audit itself with respect to matters of principle which may arise.

Mr. HENDERSON: These have been fairly frequent, I might say, because the operations of these companies in the various countries are involved, and we are thus familiar with whatever situation they have under discussion with local management. They will correspond with us, and we in turn will talk to the president and the vice presidents at Sarnia, as to the course of action to be taken, and we have been able to work together very satisfactorily on this basis.

Mr. ROCK: In other words, during the audit you have communication with them. You do it out there. You do discuss the audit with them.

Mr. HENDERSON: Oh, yes.

Mr. ROCK: They are your employees, indirectly?

Mr. HENDERSON: You might put it that way. They are our employees in the sense that we have no difficulty in working out a program together—and we do this in great detail, because since we are auditors of the parent corporation, they must know what our standards are, and what we expect of them, and how we apply them in our work at Sarnia; and we agree with them in the setting up

of the work. I might cite for example, the large rubber plant at Strasbourg. We have looked into the system of internal control which they have set up very carefully. Mr. Stokes and I were there last summer, as I mentioned, and we met with the officers not only in their offices but also on the site, and with management in looking over these things. We went over there with a list of questions for checking. We do not propose to do this every year unless we should have reason to believe that we have to be more active than we are at the present time. This is a matter of judgment in the exercise of my own responsibility as I see it.

Mr. WINCH: Just to use Polymer as an example, is my understanding correct that when they report on the parent corporation in Sarnia, it is a consolidated report of the parent company?

Mr. HENDERSON: That is right.

Mr. WINCH: That leads me to this question. On the matter of policy, would you recommend any change in order that the House of Commons should have a complete understanding of the operations. That would end your consolidated report. Should there be an indication of the operations of the subsidiaries, so that the House of Commons would know not only what the overall position of the parent company is, but also have a financial picture of the operations of the subsidiaries? Has any thought ever been given to that angle, or is there any reason why the House of Commons should receive only a consolidated report?

Mr. HENDERSON: I think you have made a good point in that the house has every right to know the full and complete details of the operations of each of these subsidiary companies. I am speaking of financial reports as distinct from what the subsidiaries do, which I think is a matter of record in the annual report of the corporation; but to have the individual financial result of each subsidiary company listed there would not convey too much in the over-all picture, because it is a very complex one. These companies are little more than branch operations.

Mr. WINCH: Let us consider Mexico.

Mr. HENDERSON: That is a different situation when compared to the one at Strasbourg. The only way to show the real picture of Polymer is on a consolidated basis, in my opinion. It would not be too difficult to give you an explanation at any time as to how these subsidiaries interlock, and the reason for some of the arrangements which exist. But I would point out to you that if you should require Polymer to spread this information out, you may in turn be doing it a disservice in its relations with the competition which it has to meet over there, because this competition is extremely formidable. There are no mysteries about this. It is a standard type of operation which you find in any large business.

If Canada is going to compete in these markets, and to extend and strengthen its competitive position, then some regard should be given, it seems to me, to the manner in which you ask the company to make its affairs public. On the other hand, such a thing as an in camera meeting to explain the interlocking arrangements would have a certain amount of merit. But I think the proper way to assess Polymer's progress from its financial point of view is essentially on a consolidated basis. You know that they have to meet very intense international competition from some of the largest complexes in the world such as Standard Oil of New Jersey, Royal Dutch Shell, and so on.

Mr. O'KEEFE: I am anxious to go on record as being opposed to outside firms coming in. Would there be a saving to the taxpayer if that system were changed?

The CHAIRMAN: You may assess what saving might be acquired.

Mr. HENDERSON: Well, it really would depend on how you approach it. Essentially, the saving inherent in such an arrangement would be one of comparing an audit conducted by private firms as opposed to an audit conducted by my office. In fairness to the private firms, just like the rest of us, they have to pay taxes. I wish to point that out. As to the man power which I would require to employ in order to match theirs, there are two firms of auditors, as I indicated for most of these seven corporations. The fees which are paid to them were tabled in answer to a question in the Senate last year. I do not have it at hand, but they were all given there, I think.

Mr. O'KEEFE: So there would be no saving?

Mr. HENDERSON: No, there would be a saving undoubtedly to the federal treasury. I have not made any computation as to how much it would be. I would have to expand on the staff side, Mr. Chairman, and, as we know from earlier discussion, this particular situation has improved in my office. The treasury board as recently as October 22 accepted or approved my request for additional staff with effect from April 1 of next year. In doing so they made this effective as of October 1 of this year so that I could go out and get the people in and have them trained before our busy season commences, which is early in the new year. Therefore, I am very hopeful that the problems we have discussed here together in the past are going to be behind us very soon, and that I shall now have a staff adequate to meet the job.

The CHAIRMAN: I wonder if it would be possible for Mr. Henderson to refer the clerk to the particular reference in the Senate committee reports, so that it meets Mr. O'Keefe's point, and that the committee might agree that it be included as part of our proceedings, so that it would be on record for the purpose? Would you agree?

Mr. O'KEEFE: Yes, I would.

Mr. HENDERSON: All right, I shall obtain it for you.

Mr. ROCK: Mr. Francis and Mr. O'Keefe have already gone on record as being against the hiring of outside auditors without getting a full picture of the situation in principle. Even so they are on record. But it is easy to go on record without getting all the facts. Would Mr. Henderson not say that there may be a little saving?

Mr. O'KEEFE: Thank you very much.

Mr. ROCK: Does this mean that even if you have your own men and send them over there every year, and bring them back, it would be a saving, or would you have to retain your men in Europe, and find homes so that they might live there? They might even receive an extra bonus, such as other people do when they go overseas.

Mr. FRANCIS: Mr. Chairman, I would like to set the record straight. I am not objecting to the arrangement with Polymer. I think it is excellent, and makes a lot of sense. I do not see how the Auditor General could be doing otherwise. It should be brought out that it was on his initiative and recommendation that this solution was arrived at, because he did not want to have his staff travelling all over the world. But I would repeat that I do think there is a principle that is spelled out in the Financial Administration Act that, where public funds are involved, there is a function on the part of the Auditor General to be performed, and I think there is a principle being followed in such a situation. The Auditor General does not, as a matter of practice, and out of courtesy and deference to his professional colleagues in the private sector, do the job which I would like to see him do in respect of the corporations which do not use his service, but do use the services of private auditors. Thank you for your courtesy.

Mr. ROCK: This is your opinion, but I do not see much reason for the system presently being used. I do not think in effect we would ever save any money according to Mr. O'Keefe's proposition. And I think that the proof is submitted here. I will go along with the way it is being done right now.

The CHAIRMAN: Gentlemen, may we perhaps close off the discussion now without inhibiting a discussion again after we have had an opportunity to read what Mr. Henderson has said. I was very interested in the situations he has brought up, namely, that the Auditor General do it alone, or the Auditor General's office do it in joint combination or co-operation with members of the private sector; or that it be done by the private sector alone. These are the three choices set out. Perhaps after we have had a chance to read it carefully, it would be open to discussion at our next meeting with such additional information which Mr. Henderson will get for us as to the cost to the country.

Mr. WINCH: Can we be sure of getting the transcript for the next meeting?

The CHAIRMAN: Let us say that even if the transcript is not available, we might have copies run off for members of the committee.

Mr. HENDERSON: You mean copies of the Senate figures?

The CHAIRMAN: Yes.

Mr. HENDERSON: Yes. Unfortunately I did not bring them to the meeting. But they are available in the Senate reports. A question was asked and an answer was tabled giving the names of the firms and the fees paid in respect of the audits.

Mr. WINCH: Could we not have photostats run off of your brief for members of the committee, in case we cannot get the transcript before the next meeting?

The CHAIRMAN: Yes, I think so. When copies are made available to us, they will be made available to you.

Mr. HENDERSON: You mean concerning the arrangements in other commonwealth countries?

The CHAIRMAN: Yes. They will be made available as well. Now, let us turn to paragraph 135, which has to do with the first of the crown corporations.

135. *Atomic Energy of Canada Limited*. This company was incorporated in 1952 under the Companies Act, 1934 pursuant to the authority contained in the Atomic Energy Control Act, R.S., c.11, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the company is in Ottawa. Nuclear reactors and major research and development laboratories are maintained at Chalk River, Ontario. A commercial products division, located in Ottawa, is responsible for the sale of beam therapy units, radio-active isotopes and other allied products. A nuclear power plant division is situated in Toronto and has responsibility for the administration, design, engineering and procurement services for the Douglas Point nuclear power station located on the shore of Lake Huron. In addition, this division co-ordinates all the research and development contracts which the company places with Canadian industry. At the year-end there were 162 of these contracts placed with 33 firms.

A nuclear power demonstration plant at Rolphton, Ontario, was completed and put into operation during the year. This plant was built as a joint project of Atomic Energy of Canada Limited, the Hydro-Electric Power Commission of Ontario and Canadian General Electric Company Limited, and was built to demonstrate the Canadian type of nuclear power reactor. The crown company's share of the costs of this project

amounted to \$25,537,000. This includes \$724,000 spent on a design concept which was not used for the reactor, as constructed, and consequently the company's share of the plant is recorded in its accounts at a cost of \$24,813,000.

At the year-end the company had under construction a nuclear research establishment in the Whiteshell area, near Winnipeg, and a nuclear power station at Douglas Point. The cost of the research establishment (\$8,693,000) is being financed by parliamentary appropriations and the cost of the power station (\$19,811,000) by government of Canada loans.

The crown's equity in the company at March 31, 1963 totalled \$55,336,000, comprising: loans for housing, \$5,667,000; loans for construction of Douglas Point generating station, \$19,281,000; capital stock, \$54,000,000; and retained earnings, \$1,627,000—less the depreciated value of the N.R.U. reactor (\$25,239,000) which was written off during the year, as authorized by the Special Appropriation Act, 1963 (Atomic Energy Vote 16).

A comparative summary of income and expense for the past two years follows:

Research Program—Operating Expense—	Year ended March 31	
	1963	1962
Research and development	\$ 8,792,000	\$ 8,456,000
Operation of research facilities	1,795,000	1,597,000
Engineering services	3,870,000	3,770,000
Engineering design and applied development ..	1,497,000	1,393,000
Nuclear power plant	9,125,000	7,060,000
Administration	3,159,000	3,011,000
Other	2,289,000	1,886,000
	<u>30,527,000</u>	<u>27,173,000</u>
Income: Gross income from housing, hospital, transportation, etc.	1,896,000	1,438,000
Excess of expense over income	<u>\$28,631,000</u>	<u>\$25,735,000</u>
Provided for by:		
Parliamentary appropriation	\$28,646,000	\$25,756,000
Less: Unexpended balance refundable to the government of Canada	15,000	21,000
	<u>\$28,631,000</u>	<u>\$25,735,000</u>
Research Program—Capital Expense: Construction of buildings and acquisition of equipment	\$ 9,349,000	\$ 9,223,000
Provided for by:		
Parliamentary appropriation	\$ 8,431,000	\$ 8,198,000
Retained earnings	918,000	1,025,000
	<u>\$ 9,349,000</u>	<u>\$ 9,223,000</u>
Commercial Operations Income—		
Sales	\$ 3,803,000	\$ 3,878,000
Rentals, etc.	159,000	196,000
	<u>3,962,000</u>	<u>4,074,000</u>

Commereiiial Operation (Concluded)	Year ended March 31	
	1963	1962
Expense—		
Cost of sales, etc.	1,858,000	2,178,000
Research and development	652,000	444,000
Selling	863,000	760,000
Administrative	373,000	374,000
	<hr/> 3,746,000	<hr/> 3,756,000
Excess of income over expense, credited to re- tained earnings	<hr/> \$ 216,000	<hr/> \$ 318,000

The sale of materials irradiated in the N.R.U. reactor and the related costs are subject to a classified international agreement and are, therefore, not reflected in the above summary.

The rise of \$3,354,000 during 1962-63 in research operating expenses was largely due to increases in: salaries and wages, including welfare benefits, \$766,000; materials and supplies, \$1,221,000; professional and special services, \$1,553,000; less a decrease of \$897,000 in contractual expenditures. The increase in salaries and wages resulted from an increase in the number of personnel employed, together with increased remuneration granted under union contracts. The commissioning and putting into operation of the nuclear power demonstration plant at Rolphton necessitated materials and supplies not heretofore required, plus additional professional and other services resulting in the marked increase in the cost of these items. In previous years one of the contractual expenditures of the research operating program was a "grant" of \$215,000 to the company's commercial products division. This policy was discontinued during 1962-63 and the decrease in expenditures under contracts is partly due to discontinuation of this "grant", as well as to the termination of payments under contracts upon completion of the nuclear power demonstration plant.

The annual parliamentary appropriations for the research operating program take into consideration credits for income arising from housing, hospital, transportation, etc. On the other hand, income incidental to the operation of research facilities and profits on disposal of plant, property, etc., is credited to retained earnings account instead of to the annual appropriations for the research capital program. However, the company supplements these appropriations by funds from retained earnings, and the amounts of the appropriations take into consideration undertakings on the part of the company to provide such funds. The balance of the retained earnings account at March 31, 1963 amounted to \$1,627,000 and the company has undertaken to supplement the appropriations for the research capital program by this amount over the next two years.

Mr. HENDERSON: Would it be satisfactory if we could just deal with each one of them as we go through, beginning with this paragraph 135?

The CHAIRMAN: Yes, and if any member has a question, he may ask it when Mr. Henderson has completed what he has to say concerning the paragraph in question.

Mr. HENDERSON: Here you see set out the background of what the crown corporation does, how it operates, the size of the crown's equity, and the result of its operations. So on page 86 you will see it done on a comparative basis with previous years, followed by an explanation as to the increase in expenditures

as well as in revenues. Any comment we might have to make on the manner in which the operations are carried out is usually made at the conclusion of the commentary. And in the case of Atomic Energy of Canada Limited we do not have any remarks of that type to make here. Now, paragraph 136 which deals with Canadian Arsenals Limited:

136. *Canadian Arsenals Limited.* This company was incorporated in 1945 under the Companies Act, 1934, pursuant to authority contained in the department of reconstruction act, 1944, c. 18. The main objects of the company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment, including the maintenance of physical facilities and manufacturing skills so that the operations could be expanded on short notice.

At the year-end the company, with its head office in Ottawa, was the custodian of nine crown-owned plants constructed at a cost in excess of \$100 million. Eight of these plants were maintained in partially stand-by condition and one was idle.

Funds totalling \$392,000 were provided by the Department of Defence Production under authority of parliamentary appropriations and Governor General's special warrants towards construction, improvements and equipment acquired by the company during 1962-63. Actual capital expenditures during the year amounted to \$383,000 and the unexpended balance of \$9,000 has been refunded.

At March 31, 1963 the company's operations were financed by advances of \$1,150,000 from the Department of National Defence in respect of orders placed (reduced from \$4,648,000 at March 31, 1962), advances of \$2,250,000 from the Department of Defence Production revolving fund (reduced from \$5,000,000 at March 31, 1962) and advances of \$7,500,000 from the Minister of Finance for working capital (unchanged from March 31, 1962).

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31 1963	1962
Income—		
Sales	\$16,975,000	\$22,936,000
Miscellaneous	815,000	503,000
	<hr/> 17,790,000	<hr/> 23,439,000
Expense—		
Cost of sales, including indirect labour and other overhead expenses absorbed	15,310,000	20,250,000
Indirect labour and other overhead expenses not absorbed in cost of sales	5,863,000	5,318,000
Administrative expenses	818,000	911,000
	<hr/> 21,991,000	<hr/> 26,479,000
Excess of expense over income	<hr/> \$ 4,201,000	<hr/> \$ 3,040,000

Except for a minor increase in 1961-62 over 1960-61, there has been a steady decline in sales over the past eight years, from \$81 million for the year ended March 31, 1955 to \$17 million for the year ended March 31, 1963. The reduced level of sales, coupled with the company's obligation to maintain the crown-owned plants in partial stand-by condition,

has necessitated funds being appropriated by Parliament towards the cost of administration and operation of the company. During the year under review a total of \$4,216,000 was provided by the Department of Defence Production for this purpose through parliamentary appropriations and Governor General's special warrants. Since the excess of expense over income for the year ended March 31, 1963 amounted to \$4,201,000, a balance of \$15,000 remained at the year-end and was refunded in May 1963.

Indirect labour and overhead expenses for the year totalled \$10,853,000 (compared with \$11,238,000 for the previous year) of which \$4,990,000 was included in cost of sales. It has been the company's practice to calculate this portion of overhead expenses on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. The extent to which these rates were not sufficient to recover overhead costs, \$5,863,000, shown in the above table as indirect labour and other overhead expenses not absorbed in cost of sales, can be largely attributed to idle capacity of production facilities.

Inventories of raw materials, work in process and finished goods were reduced by \$5,027,000 or 48% from their level at March 31, 1962. The inventory reduction includes write-offs of \$334,000, of which \$32,000 was for products rejected in the previous year.

Reference was made in last year's Report to the fact that a firm of management consultants, engaged in November 1960 by the Department of Defence Production to undertake a study of the organization of the company, the efficiency and cost of its manufacturing operations and other aspects of its activities, had submitted its report and that this was under review by the management. During the year under review a number of the recommendations made by the consultants were implemented, while others were still under study.

The same practice is followed here. On page 88 you see a comparative summary of the results of operations for the past two years, and then the explanation follows as to the reason for the increase or change in the various income and expenditure categories. You will notice reference at the conclusion here to a firm of management consultants which has been engaged in November, 1960, by the Department of Defence Production to undertake a study of the organization of the company, the efficiency and costs of its manufacturing operations and other aspects of its activities. It has submitted its report which is under review by management. We take an interest in these studies as we must, because the facts disclosed by them often are reflected in the operations which we audit, and the changes that they are proposing to employ might affect the delicate balance of the system of internal financial control. This is of great importance to us in our audit program as you know.

Now, paragraph 137:

137. *Canadian Broadcasting Corporation.* The Canadian Broadcasting Corporation, established by the Canadian broadcasting corporation act, 1936, c. 24, superseded by the Broadcasting Act, 1958, c. 22, operates the national television and radio broadcasting services and also administers an international shortwave service on behalf of the government of Canada. The head office of the corporation is in Ottawa, with regional offices in St. John's, Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver and an engineering headquarters in Montreal.

The Corporation derives its funds for operating requirements in excess of advertising revenue and also funds for its capital requirements from grants provided through parliamentary appropriations.

At March 31, 1963 the crown's equity in the corporation amounted to \$42,798,000, an increase of \$1,772,000 over the equity of \$41,026,000 at the close of the preceding year.

The following is a comparative summary of the results of operations for the last two financial years:

	Year ended March 31	
	1963	1962
Expense—		
Cost of production and distribution		
Cost of programs	\$70,005,000	\$68,361,000
Network distribution	10,146,000	10,062,000
Station transmission	4,030,000	3,893,000
Payments to private stations	4,335,000	4,851,000
Commissions to agencies and networks	3,872,000	4,620,000
	92,388,000	91,787,000
Operational supervision and services	8,427,000	8,843,000
Selling and general administration	7,269,000	6,968,000
Emergency broadcasting	282,000	13,000
Total expense (including depreciation)	108,366,000	107,611,000
Income—		
Advertising revenue	31,403,000	33,320,000
Net expense	\$76,963,000	\$74,291,000

The "grant in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service", \$72,655,000, comprising net expense of \$76,963,000 shown above, less depreciation of \$4,308,000 charged for cost ascertainment purposes, was provided by parliamentary appropriations to the extent of \$61,661,000 and by Governor General's special warrants to the extent of \$11,583,000. The unexpended portion of \$589,000 was refunded to the Receiver General in May 1963.

The net expense for the year under review increased by \$2,672,000 over the net expense for the preceding year, \$1,917,000 of the increase being attributable to decreased advertising revenue and \$755,000 to increased expense. Continuing competition from independent television stations and increased competition from a private television network were the main reasons for the decrease in advertising revenue. An increase of \$2,362,000 in salaries and wages, which more than accounted for the overall increase in expense, was mainly due to salary increases required by collective bargaining agreements. An increase in the number of employees during the first four months of the fiscal year was more than offset by subsequent reductions and at March 31, 1963 the corporation had 179 fewer employees than at the end of the preceding year.

The following inventory balances at March 31, 1963 are compared with the corresponding balances at March 31, 1962:

	March 31		
	1963	1962	Increase
Engineering and production supplies ..	\$ 1,646,000	\$ 1,569,000	\$ 77,000
Programs completed and in process of production	3,589,000	3,341,000	248,000
Prepaid film rights	1,705,000	1,514,000	191,000
Prepaid script rights	172,000	143,000	29,000
	\$ 7,112,000	\$ 6,567,000	\$ 545,000

The bulk of the inventory of programs completed and in process of production continued to be in Toronto and Montreal, for the English and French networks respectively, and included programs recorded in advance of broadcast on videotape (\$2,277,000) and film (\$1,176,000). Of the \$1,705,000 of prepaid film rights, \$1,363,000 or 80% was in the Quebec region, where the limited supply of French language film available in Canada necessitated the acquisition of rights in advance of normal requirements.

The inventory balances shown in the above tabulation are after giving effect to the following write-offs:

Programs completed and in process of production abandoned and cancelled because of performer or technical deficiencies or changes in programming	\$ 115,000
Film rights expired and not telecast because of changes in programming or unsuitable because of program content	73,000
Script rights expired or unsuitable	64,000
Engineering and production supplies unusable and obsolete	3,000
	<hr/>
	\$ 255,000

The comparable write-offs in the previous year totalled \$1,159,000 which included \$701,000 of stationery, technical and production supplies on hand and which were charged directly as expense at March 31, 1962 in keeping with the corporation's decision to charge these classes of supplies as expense when purchased rather than when used, as had been the previous practice.

The capital requirements of the corporation, amounting to \$6,600,000, were provided to the extent of \$6,050,000 by parliamentary appropriations and \$550,000 by Governor General's special warrant. With capital expenditure during the year amounting to \$6,390,000 the unexpended balance of \$210,000 was refunded to the Receiver General in May, 1963.

During the last four years, \$3,802,000 was spent in connection with the consolidation of facilities in Toronto, Montreal and Ottawa. A note to the financial statements at March 31, 1963 sets out that the present estimate of the cost of consolidation of facilities at these locations would be \$83,058,000 of which, subject to the provision by parliament of annual appropriations for the purpose, \$1,597,000 would be expended during the year ending March 31, 1964 and the balance during the four years ending March 31, 1968.

In the reports for the past two years we drew attention to a recommendation contained in our report to the board of directors for the year ended March 31, 1960 that a useful purpose might be served by having the corporation's organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the audit office. A study along these lines was made by the Royal Commission on Government Organization, and the results were contained in report 19, volume 4 of its reports released on April 17, 1963. The commissioners stated that, while they had not undertaken the detailed investigation and appraisal which may have been contemplated, their report was proposing guidelines and criteria which, subject to government decisions on policy, should permit the corporation to adjust its internal organization and operations to management and performance needs. Several of the commissioners' comments, particularly those relating to financial administration, dealt with matters which had been the subject of critical comment in our 1960 report, and we found that a number of these matters had, in the meantime, been remedied. These comments made by the commissioners have been reviewed with the president and senior officers of the corporation who have stated that further remedial action would be undertaken.

This paragraph gives you a picture of the Canadian Broadcasting Corporation which you have already dealt with earlier this year; and as you know, behind each one of these observations there exists a long form report which is sent to the management, and copies of which were tabled for your information and to facilitate your discussions and consideration of the affairs of the corporation when you examined it.

Now, paragraph 138:

138. *Canadian Commercial Corporation.* This corporation, which was established in 1946 under the Canadian Commercial Corporation Act, now R.S., c. 35, provides procurement services in Canada for the governments of other countries and for international organizations. The corporation's main customer is the United States government, although a considerable volume of purchasing of Canadian-made goods is carried out on behalf of the Department of External Affairs' external aid office for Colombo plan projects. Some \$153 million of suppliers' invoices were processed by the Corporation on behalf of its customers, during the year under review, in comparison with \$107 million in the preceding year.

At the year-end the equity of the government of Canada in the corporation was \$9,899,177 represented by a \$9.5 million working capital advance and an accumulated surplus of \$399,177.

The corporation's operating budget for 1963-64 estimates a loss of \$390,000; therefore, it is assumed that by the end of the 1963-64 fiscal year the surplus will be almost depleted. A board of directors' minute of March 19, 1963, noted that the operating deficit for the financial year 1964-65 should be covered by a Department of Defence Production vote and that the department will be asked to provide an amount for this purpose in its estimates for that year.

The following is a comparative summary of the operations of the corporation for the past two years:

	Year ended March 31	
	1963	1962
Expense—		
Salaries and living expenses	\$ 331,000	\$ 331,000
Other expenses	110,000	87,000
	<hr/> 491,000	<hr/> 418,000
Income—		
Purchase surcharges	127,000	108,000
Interest earned	119,000	66,000
Exchange gain	8,000	62,000
Other income	1,000	6,000
	<hr/> 255,000	<hr/> 242,000
Net loss	<hr/> \$ 236,000	<hr/> \$ 176,000

The increase in salaries and living expenses was due to the cost of additional staff required to process the increased volume of business and to a general salary increase retroactive to October 1, 1961. The increase in interest resulted from an increase in funds available for short-term investment while the decrease in exchange gain resulted from the fact that in the previous year a substantial gain resulted from the sale of United States funds.

In last year's report it was noted that the Department of Defence Production had been providing purchasing and accounting services free of charge to the corporation since 1951. This arrangement was continued

in the year under review. In addition, as a result of a reorganization during the year for the purpose of improving the services rendered on export contracts, 31 engineers and purchasing officers were loaned to the company without charge by the Department of Defence Production and Defence Construction (1951) Limited.

That is a fairly straightforward operation, I think.

Now paragraph 139:

139. *Canadian National (West Indies) Steamships, Limited.* The active operations of this company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests, and its activities are now confined to the winding-up of its affairs. The head office of the company is in Ottawa and its residual functions are being performed by staff of the Canadian Maritime Commission.

During the year, by supplementary letters patent, 16,390 of the company's 16,400 outstanding shares were cancelled. Paid-up capital represented by the cancelled stock amounted to \$1,599,000. Payments to the government of Canada, by the transfer of the Minister of Finance of \$725,000 on deposit with the Receiver General and a remittance of \$550,000, reduced the undistributed capital to \$324,000 at December 31, 1962.

The sum of \$60,000 was received in war claims during the year and \$42,000 of interest was earned on deposits and agreements of sale. Expenditures, comprising settlement of claims and legal expenses with respect to these claims, amounted to \$5,000.

The crown's equity in the company at December 31, 1962 amounted to \$468,000 represented by the following:

Cash	\$ 26,000
Balance due under agreement of sale of vessels including accrued interest	456,000
	<hr/>
	482,000
Less: Matured bonds, unclaimed	14,000
	<hr/>
	\$ 468,000

An outstanding claim of \$59,000, filed with the War Claims Commission in respect of a loss due to enemy action, was not recorded on the balance sheet of the company as a receivable at the year-end since the amount of any further recovery is dependent on the adequacy of the war claims fund. On the other hand, no provision was made for a possible liability, estimated at approximately \$50,000, in respect of legal claims filed or pending for damages resulting from the company's operations in past years.

This deals with the Canadian National (West Indies) Steamships, Limited which is reaching the conclusion of its activities as it collects the final balance due from the sale of its ships.

Now, paragraph 140:

140. *Canadian Overseas Telecommunication Corporation.* The objects of this corporation, established in 1949 by the Canadian Overseas Telecommunication Corporation Act, now R.S., c. 42, are: to establish, maintain and operate external telecommunication services for the conduct of public communications; to carry on the business of public communications; to improve the efficiency of telecommunication services generally; and to co-ordinate Canada's external telecommunication

services with those of other parts of the commonwealth. To these ends the corporation, in 1950, acquired the external telecommunication facilities in Canada of Cable and Wireless Limited and Canadian Marconi Company Limited. The acquisition of these facilities provided cable and radio-telegraph circuits between Canada, Britain, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services with Britain and the West Indies. The more recent of many major subsequent developments include the following: the bringing into service in January 1963 of the cable system between Canada, Greenland and Iceland, with extensions to Britain and Europe; the acquisition of the right of use of an appropriate number of circuits in a cable between the United States and Jamaica and an extension to Montreal to provide service between Canada and Jamaica, beginning in February 1963; and the joint agreement with Britain, Australia and New Zealand to construct the Commonwealth Pacific Cable System between Canada and Australia and New Zealand which is to be brought into service in December 1963.

The equity of the crown in the corporation amounted to \$56,947,000 at March 31, 1963, an increase of \$13,411,000 over the equity at the end of the previous year, and comprised \$49,321,000 of advances for capital purposes and \$7,626,000 of accumulated surplus.

Loans to finance, in part, the capital requirements of the corporation are provided by parliamentary appropriations. Capital additions during the year amounted to \$17,781,000 towards which \$13,000,000 was advanced by the crown and \$4,781,000 was provided out of accumulated earnings. At March 31, 1963 the estimated cost of completing approved capital projects was approximately \$23,400,000 of which \$14,400,000 related to the year ending March 31, 1964.

The following is a summary of the income and expense of the corporation for the last two years:

	Year ended March 31	
	1963	1962
Income—		
Telephone, telegraph, telex, circuit rentals, etc.	\$12,321,000	\$ 9,484,000
Expense—		
Salaries, wages and employee benefits	2,591,000	2,304,000
Depreciation	2,376,000	1,709,000
Rental of circuits, etc.	1,377,000	1,135,000
Interest	1,339,000	921,000
Operation, maintenance and repairs—buildings, plant and equipment	1,051,000	789,000
Other	517,000	373,000
	9,251,000	7,231,000
Less: Estimated amount recoverable from Com- monwealth Network	1,025,000	1,164,000
	8,226,000	6,067,000
	4,095,000	3,417,000
Deduct: Cost of additional pension benefits	116,000	94,000
Profit before income tax	3,979,000	3,323,000
Deduct: Income tax	1,971,000	1,658,000
Net profit	\$ 2,008,000	\$ 1,665,000

Income increased by \$2,837,000 or approximately 30% over that of the previous year, the same percentage of increase as was recorded last year. The increase for the year under review is largely the result of greater revenue from circuit rentals, although revenue realized from telegraph, telephone and telex services also increased substantially.

The \$1,040,000 of cash and investments which was formerly held in trust for actuarial deficiencies in pension funds for employees participating in pension plans of a predecessor company was distributed during the year. Following payment of \$499,000 into the pension fund of the predecessor company in respect of former employees who are in receipt of pensions and those employees who elected to continue under the predecessor company's pension plan, the balance of \$541,000 was transferred to the public service superannuation account of the government of Canada, in accordance with the regulations respecting the transfer of pensions of employees of the Canadian Overseas Telecommunication Corporation as set forth in order in council P.C. 1961-1556 of October 26, 1961.

This deals with Canadian Overseas Telecommunication Corporation operating out of Montreal, and as you will see, it is a profitable operation. It is well run, and we have seldom had occasion to criticize any of its operations.

Now, paragraph 141:

141. *Canadian Patents and Development Limited*. Section 17 of the Research Council Act, R.S., c. 239, provides for the incorporation of one or more companies by the national research council for the purpose of exercising certain of the powers conferred upon the council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Companies Act, 1934, for the purpose of making available to industry, through licensing arrangements, the inventions and new processes developed by the council. The services of the company, which is located in Ottawa, are available to government departments, publicly supported institutions and universities.

The following summary shows the results of the company's operations for the year ended March 31, 1963 compared with the preceding year:

	Year ended March 31	
	1963	1962
Income—		
Royalties, licensing fees, etc.	\$ 554,000	\$ 277,000
Less: Costs of licensing rights and related technical assistance, etc.	63,000	12,000
	491,000	265,000
Other income	24,000	14,000
	<hr/> 515,000	<hr/> 279,000
Expense—		
Salaries	29,000	27,000
Services provided by National Research Council..	36,000	30,000
Patent attorneys' fees and other patent expense..	55,000	33,000
Awards to inventors	19,000	14,000
Other expenses	10,000	33,000
	<hr/> 149,000	<hr/> 137,000
Net profit for the year	\$ 366,000	\$ 142,000

The increased income from royalties, licensing fees, etc., is largely attributable to one licence. Two other licences, while contributing to the increased income, were mainly responsible for the greater part of the increased cost of licensing rights and related technical assistance, etc. The increased cost of patent attorney's fees and other patent expense was largely due to an expenditure of \$14,000 for the filing of patent applications on a device in a number of countries. The item for "other expenses" shows a significant decrease because the preceding year's figure included a grant of \$25,000 to a university, for applied research, referred to in last year's report.

The net profit of \$366,000 for the year resulted in a corresponding increase in the crown's equity in the company which, at March 31, 1963, was \$820,000, comprising capital stock of \$296,000 and surplus of \$524,000.

When approving the company's 1962-63 operating budget, the Minister of Finance, while recognizing the value of grants to persons carrying out applied research at universities in fields from which the company had or might derive patent rights, expressed the opinion that for 1962-63 and future years "more emphasis should be placed on the development of products and techniques that the company is already in a position to lease on a royalty basis to private industry". As a result, during the year under review no grants were made for the carrying out of applied research at universities. However, the company initiated a program of assistance to Canadian industry in establishing new processes and at March 31, 1963 there were outstanding commitments of approximately \$32,000 in connection with this program.

This corporation is another company which operates under the aegis of the research council. As you will see, they have been improving their position and increasing their income and accordingly their net profit. There is an interesting comment at the top of page 96 to the effect that when approving the company's 1962-63 operating budget, the Minister of Finance expressed the opinion that greater emphasis should be placed on the development of products and techniques that the company is already in a position to lease on a royalty basis to private industry. As a result, during the year under review, no grants were made for the carrying out of applied research at universities.

Now, paragraph 142:

142. *Cornwall International Bridge Company Limited.* This company was incorporated in 1949 under the Companies Act, 1934, by private shareholders, for the purpose of operating a toll highway over the St. Lawrence River between Cornwall, Ontario, and Rooseveltown, New York, on railway bridges leased from two railway companies. These railway bridges were acquired by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a wholly-owned United States corporation) in connection with the construction of the seaway. In 1957, all of the outstanding stock of the bridge company was purchased jointly by the seaway entities for \$480,000, of which \$200,000 was paid by the authority.

This international bridge system now uses new facilities constructed by the seaway entities. The low-level railway bridges were replaced by a high-level south channel span in 1958 and by a high-level north channel span in 1962.

In June 1962, the seaway entities agreed to discontinue the operation of the toll bridge by the bridge company and to assign the operating responsibility to a wholly-owned subsidiary of the authority to be incorporated under section 24A of the St. Lawrence Seaway Authority

Act. On July 3, 1962, pending incorporation of the subsidiary, the bridge division of the authority took over the operation of the bridge system and on January 1, 1963 The Seaway International Bridge Corporation, Ltd. took over operations on the same terms as were in effect for the Cornwall International Bridge Company Limited which is now in the process of winding up its affairs.

By agreement between the seaway entities the annual revenues of the company have been applied in the following order of priority:

- (i) in payment of all operating, administrative and general expenses of the bridge company;
- (ii) in amortization of the costs of constructing the North Channel bridge by the Authority, plus interest, over a period of fifty years; and
- (iii) the balance distributed on a fifty-fifty basis between the Authority and the Corporation.

A summary of the operations of the company for its past two financial years follows:

	Year ended September 30	
	1962	1961
Income—		
Bridge tolls	\$ 210,000	\$ 348,000
Other	2,000	3,000
	<u>212,000</u>	<u>351,000</u>
Expense—		
Salaries and wages	36,000	49,000
Maintenance and repairs	31,000	25,000
Rental of toll collection machines	10,000	13,000
Advertising	25,000	2,000
Other	35,000	52,000
	<u>137,000</u>	<u>141,000</u>
Provision for amortization of cost of North Channel bridge owned by The St. Lawrence Seaway Authority	75,000	130,000
	<u>212,000</u>	<u>271,000</u>
Fee for management, use of right-of-way over bridges, etc., payable to The St. Lawrence Seaway Authority (50% in trust for the Saint Lawrence Seaway Development Corporation)	—	\$ 80,000

As the company ceased operations on July 2, 1962 the figures shown for the year ended September 30, 1962 cover an operating period of only nine months, in comparison with a full period of twelve months in the previous year.

Prior to or in the course of the winding up process, the company disposed of land, buildings and equipment at a loss of \$10,000 and made provision in the accounts for a loss of \$52,000 expected to be realized from the proposed conveyance to municipalities of title to a bridge and roads.

After giving effect to these adjustments, which involved charges to surplus account, the shareholders' equity in the company at September 30, 1962 amounted to \$48,000, comprising \$50,000 of capital stock less a deficit of \$2,000.

This covers the operations of the Cornwall International Bridge Company Limited. This is operated jointly by the St. Lawrence Seaway Authority and

its United States counterpart, the St. Lawrence Seaway Development Corporation. The Cornwall-Roosevelt town bridge is the new one under this category, and this company is being wound-up in favour of the newer arrangement. Details of it will be found in my next report. I make reference to it in the first paragraph.

Now, paragraph 143:

143. *Crown Assets Disposal Corporation.* In 1944 the Surplus Crown Assets Act established the war assets corporation, which, by a 1949 amendment to the act, became the Crown Assets Disposal Corporation. With certain specified exceptions, the corporation is responsible for the disposal of the surplus assets of all government departments and most of the crown corporations and agencies. Also, the corporation has entered into agreements with Britain and the United States whereby it disposes of surplus property of these countries located in Canada. The Corporation's head office is located in Ottawa and sales offices are maintained in a number of other cities throughout Canada.

As in the preceding year, the corporation was authorized by the governor in council to retain 4% of the net proceeds of sales and other moneys received from sales of lands and buildings, and 10% of the net proceeds of all other sales, to meet its administrative and other expenses. A summary of the income and expense of the corporation for the year ended March 31, 1963, together with the comparable figures for the previous year, follows:

	Year ended March 31	
	1963	1962
Income—		
Percentage of net proceeds of sales made and of other income earned, etc.	\$ 755,000	\$ 955,000
Expense—		
Salaries	450,000	427,000
Employees' welfare benefits	44,000	44,000
Rent	53,000	51,000
Telephone, telegrams and postage	27,000	28,000
Printing, stationery and office supplies	22,000	26,000
Travel	14,000	12,000
Other expenses	10,000	12,000
	620,000	600,000
Excess of income over expense	\$ 135,000	\$ 355,000

The \$200,000 decrease in income is largely explained by the fact that during the previous year there were several exceptional sales at substantial prices—to which reference is made below—from which the corporation derived considerable income through the retention of the usual percentage of net proceeds of sales.

The \$23,000 increase in salaries was due to adjustments in the salaries of certain employees commensurate with increases granted to comparable classes in the civil service. There were 99 employees at March 31, 1963, the same number as at the close of the preceding year.

Pursuant to section 81 of the Financial Administration Act, the corporation was directed to pay to the Receiver General, as of March 31, 1959, and from time to time thereafter but at intervals of not longer than six months, all of its surplus in excess of \$100,000. The \$135,000 excess of income over expense for the year under review was.

STANDING COMMITTEE

in consequence, paid to the Receiver General, leaving the surplus balance unchanged at \$100,000.

The equity of the Crown at March 31, 1963 in the Corporation's agency account was \$5,884,000, compared with \$7,242,000 at the end of the preceding year, and was largely represented by amounts receivable under long-term interest-bearing sales agreements totalling \$5,764,000.

The transactions in the agency account during the year ended March 31, 1963, compared with the previous year, are summarized as follows:

	Year ended March 31	
	1963	1962
Proceeds from sales, etc.		
Government of Canada	\$ 7,790,000	\$12,355,000
Other principals	823,000	631,000
Interest earned	268,000	243,000
	<hr/>	<hr/>
	8,881,000	13,229,000
Less: Direct costs relating to sales	29,000	39,000
	<hr/>	<hr/>
	8,852,000	13,190,000
	<hr/>	<hr/>
Deduct:		
Percentage of net proceeds from sales, etc., retained by the Corporation	755,000	955,000
Remittances to Receiver General of Canada	8,715,000	9,355,000
Other remittances	745,000	556,000
	<hr/>	<hr/>
	10,215,000	10,866,000
	<hr/>	<hr/>
Increase (decrease) in equity:		
Government of Canada	(1,358,000)	2,313,000
Others	(5,000)	11,000
	<hr/>	<hr/>
	(\$1,363,000)	\$ 2,324,000
	<hr/>	<hr/>

During the year ended March 31, 1962, as previously mentioned, there were several exceptional sales of surplus assets at substantial prices. These sales included the former gun plant at Longueuil, \$1,400,000, and a former R.C.A.F. station at Lachine, \$2,300,000. The absence of such exceptional sales during the year under review accounts for a substantial part of the decrease of \$4,565,000 in proceeds from sales on behalf of the government of Canada.

We examined this corporation in 1961. And here again you will find set down the basis of its operations during the year compared with the previous year.

Now paragraph 144:

144. *Defence Construction (1951) Limited.* This crown-owned agency was incorporated in 1951 under the Companies Act, 1934, pursuant to the authority in section 7 of the Defence Production Act, now R.S., c. 62. The company is responsible for the awarding and supervision of contracts for defence construction projects, for which funds are provided by the department initiating a project, or by the United States government for projects undertaken on its behalf. During the year ended March 31, 1963 approximately \$72 million was spent on such projects, compared with some \$86 million during the preceding year.

Funds to cover the company's operating expenses are provided annually by means of a Department of Defence Production appropriation.

The following is a comparative summary of the operating results for the past two years:

Expense—	Year ended March 31	
	1963	1962
Salaries and living allowances	\$ 2,575,000	\$ 2,683,000
Travel and removal	246,000	302,000
Employees' welfare benefits	181,000	190,000
Other expenses	265,000	315,000
	<u>3,267,000</u>	<u>3,490,000</u>
Income—		
Reimbursement for engineering and administrative services	45,000	27,000
Other income	1,000	3,000
	<u>46,000</u>	<u>30,000</u>
Net expense	\$ 3,221,000	\$ 3,460,000

The completion of several major projects during the year and a decrease in the number of new contracts awarded, accompanied by a reduction in staff, accounted for the decrease in expense.

This corporation deals with defence construction and it is responsible for the awarding and supervision of contracts for defence construction projects for which funds are provided by the department initiating a project, or by the United States government.

Now, paragraph 145:

145. *Eldorado Aviation Limited*. This company, which is a wholly-owned subsidiary of Eldorado Mining and Refining Limited, was incorporated in 1953 under the companies Act. Operating from headquarters in Edmonton, the company provides air transportation services on behalf of the parent company and Northern Transportation Company Limited, another subsidiary of Eldorado Mining and Refining Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Mining and Refining Limited at December 31, 1962 amounted to \$256,000 comprising capital stock of \$28,000 and surplus of \$228,000.

The following is a comparative summary of the net expenses of the company for its last two financial years:

	Year ended December 31	
	1962	1961
Salaries, wages and contributions to employees' pension plan	\$ 251,000	\$ 263,000
Supplies	134,000	180,000
Repairs	81,000	88,000
Depreciation	59,000	92,000
Insurance	50,000	63,000
Other	64,000	63,000
Total expenses	<u>639,000</u>	<u>749,000</u>
Less: Miscellaneous income	30,000	10,000
Net expenses	\$ 609,000	\$ 739,000

The net expenses for 1962 were recovered from Eldorado Mining and Refining Limited to the extent of \$494,000 and from Northern

Transportation Company Limited to the extent of \$115,000. The decreased expenses in 1962 result from a substantially reduced volume of service provided. Traffic in southbound air-freight, which was reduced in 1961 due to the shut-down of the Port Radium mine of Eldorado Mining and Refining Limited in 1960, was further reduced in 1962 when deliveries from the Beaverlodge mine near Uranium City, Saskatchewan also fell significantly.

Eldorado Aviation Limited is a wholly owned subsidiary of Eldorado Mining and Refining Limited. Its expenses each year are recovered from Eldorado Mining and Refining Limited.

Now, paragraph 146:

146. *Eldorado Mining and Refining Limited.* This company was incorporated in 1945 under the Companies Act, 1934, following expropriation by the government of Canada in 1944 of the shares of a privately-owned company incorporated in 1927. The head office of the company is in Ottawa, the Beaverlodge mine near Uranium City, and the refinery and administrative offices in Port Hope, Ontario. The principal functions of the company are to produce, refine and sell uranium and allied products.

Since 1948 the company has also been charged with the responsibility for the purchase and disposal of all uranium produced in Canada, although in recent years private producers have been free, under certain circumstances, to sell uranium without reference to the company. Uranium concentrates are purchased by the company, as the uranium procurement agent for the crown, at various prices determined by separate agreements with each producer. In some cases the purchase prices are higher, and in other cases lower, than the prices at which the concentrates are sold to the United States Atomic Energy Commission and the United Kingdom Atomic Energy Authority. Although all purchase costs will be fully recovered before the contracts with the commission and the authority are completed, there are periods within the life of individual contracts when cumulative costs of concentrates sold exceed revenue from sales. During these periods, temporary financing is provided, as required, by the company. Charges are applied against the contract revenue for the company's services in administering and financing the ore procurement program.

During 1962 the cost of purchased concentrates delivered to the commission and the authority of \$153,444,000 exceeded the revenue from sales of \$151,964,000 by \$1,480,000. Administrative expenses and financial charges for the period amounted to \$308,000. The resultant excess of costs and expenses over sales of \$1,788,000 will be offset in future periods when sales will be made at prices exceeding the costs of acquisition.

A contract dated July 30, 1962 between the company and the United Kingdom Atomic Energy Authority for the sale of 12,000 tons of uranium in concentrates provides for certain deliveries on which payments do not become due until later years of the contract period. The account receivable thus deferred at December 31, 1962, and amounting to \$3,988,000, will increase to a maximum of almost \$32,000,000 in 1965 and decline thereafter until it is fully paid at the end of the contract in 1973.

The equity of the crown in the company at December 31, 1962 amounted to \$50,268,000, consisting of capital stock of \$6,586,000 and surplus of \$43,682,000. Dividends of \$3,000,000 were paid to the Receiver General during the year, compared with \$5,000,000 paid in the preceding year.

The following is a summary of income and expense for the financial year 1962, in comparison with the preceding year:

	Year ended December 31	
	1962	1961
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services	\$26,695,000	\$29,607,000
Expense—		
Mining, refining and other expenses	12,511,000	16,032,000
Depreciation	3,952,000	3,900,000
Amortization of cost of acquiring rights to deliver concentrates on cancellation of contract with another producer	3,234,000	4,178,000
Amortization of pre-production, mine development and other deferred expenditures	836,000	1,102,000
Reduction in valuation of inventories		785,000
	20,533,000	25,997,000
Net income from operations	6,162,000	3,610,000
Other income	1,648,000	728,000
	7,810,000	4,338,000
Provision for income tax	3,600,000	2,125,000
Net income	\$ 4,210,000	\$ 2,213,000

Notwithstanding the continuing decline in sales of uranium concentrates—amounting to \$3,068,000 in 1962—offset to a small degree by increased revenue of \$156,000 from refining services and sales of special products, the reduction in expense was such that net income from operations increased by \$2,552,000 for the year.

In 1960 the company acquired, at a cost of \$19 million, the rights of another uranium producer to deliver concentrates to the United States Atomic Energy Commission. This cost is being written off on a pro rata basis against the production remaining to be supplied out of the Beaverlodge mine. After amortizing \$3,234,000 in 1962, the sum of \$6,589,000 remained to be written off by 1965.

Following the shut-down of the Port Radium mine in 1960, substantial losses on disposal of general, leach plant and commissary stores were considered inevitable by management and accordingly this inventory was reduced to a nominal value of one dollar by write-offs of \$639,000 in 1960 and \$85,000 in 1961. The inventory valuation of uranium metal and related products at Port Hope was reduced by write-offs of \$927,000 in 1960 and \$700,000 in 1961 to revalue these products in accordance with current market conditions. No further reduction was made in the value of uranium metal and related products inventories in 1962.

This deals with the expenditures and changes during the year and the present state of its operations. You will notice in the last paragraph on page 102 that there have been, following the shutdown of the Port Radium mine in 1960, substantial losses which were considered inevitable by management, and accordingly this inventory was reduced to a nominal value. The inventory valuation of uranium metal and related products at Port Hope was reduced by write-offs of \$927,000, in 1960, and \$700,000 in 1961 to revalue these products in accordance with current market conditions. This is a type of write-off which all companies, crown corporations included, are bound to face when they deal with strategic materials having market value.

Now, paragraph 147:

147. *Export Credits Insurance Corporation.* This corporation was established in 1944 by the Export Credits Insurance Act, R.S., c. 105, to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The corporation is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that which it would normally undertake, the governor in council may, pursuant to section 21 of the act, authorize the corporation to enter into the proposed contract of insurance. In the event of a loss under this section (there has been none) the moneys required to discharge the liability are payable from unappropriated moneys in the consolidated revenue fund. A 1959 amendment to the act introduced section 21A under which the corporation may, with the authority of the governor in council, provide financing for long term export sales of capital goods with funds available out of the consolidated revenue fund. The corporation's head office is in Ottawa with branches in Montreal and Toronto.

The crown's equity in the corporation at December 31, 1962 was \$40,520,000, consisting of share capital of \$5,000,000, capital surplus of \$5,000,000, earned surplus of \$2,390,000 and an underwriting reserve of \$5,000,000, together with advances and accrued interest totalling \$23,130,000 in respect of long term financing of sales agreements under section 21A of the act. The corporation held government of Canada bonds having a par value of \$18,550,000.

Export sales insured by the corporation on its own account during 1962 totalled \$96,000,000 and premiums earned amounted to \$679,000. Export sales insured under section 21 of the act totalled \$49,000,000 and premiums amounted to \$748,000 of which \$561,000 was remitted to the Receiver General and \$187,000 was retained by the corporation in respect of expenses and overhead, in accordance with a basis authorized by the Minister of Finance. At December 31, 1962 the liability of the corporation under contracts of insurance issued and outstanding totalled \$268,106,000 of which \$196,354,000 was for contracts entered into under section 21 of the act.

At December 31, 1962, after two years of operation in the field of direct financing of long term export sales of capital goods under the authority of section 21A of the act, the corporation had signed agreements to finance export sales amounting to \$57,000,000, of which \$23,000,000 had been disbursed. In addition, the corporation had agreed in principle to finance \$100,000,000 of prospective sales and had undertaken to guarantee negotiable instruments totalling \$21,220,000 with respect to completed sales.

PUBLIC ACCOUNTS

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The following is a comparative summary of operations for the corporation's past two financial years:

	Year ended December 31	
	1962	1961
Income—		
Premiums and fees earned	\$ 921,000	\$ 744,000
Expense—		
Salaries and benefits	316,000	221,000
Rents	33,000	17,000
Travel	21,000	15,000
Communications expense and credit reports	19,000	16,000
Stationery, printing and office expenses	16,000	18,000
Other	34,000	42,000
	<u>439,000</u>	<u>329,000</u>
	<u>482,000</u>	<u>415,000</u>
	Year ended December 31	
	1962	1961
Policy holders' claims—		
Recoveries	687,000	558,000
Payments	164,000	163,000
	<u>523,000</u>	<u>395,000</u>
Excess of income and net recovery on policyholders' claims over expense	1,005,000	810,000
Add: Interest on investments	719,000	678,000
	<u>1,724,000</u>	<u>1,488,000</u>
Deduct: Provision for income tax	823,000	741,000
Surplus for year	\$ 896,000	\$ 747,000

The cost of additional staff for the export finance division, formed in 1961, and for insurance and general administration, together with the cost for a full year of larger quarters occupied in September 1961, was largely responsible for the increase of \$110,000 in the corporation's expenses during the 1962 financial year.

The following is a summary of transactions during the year in respect of payments of policyholders' claims for losses:

Type of claim	Outstanding Jan. 1, 1962	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1962
Insolvency ..	\$ 268,000	\$ 8,000	\$ 2,000	\$ 76,000	\$ 198,000
Default	354,000	150,000	129,000	76,000	299,000
Exchange transfer .	1,482,000		556,000	(56,000)	982,000
Other	1,000	6,000		6,000	1,000
	<u>\$ 2,105,000</u>	<u>\$ 164,000</u>	<u>\$ 687,000</u>	<u>\$ 102,000</u>	<u>\$ 1,480,000</u>

Of the amount of \$1,480,000 in claim payments shown above as outstanding at December 31, 1962, the corporation anticipates making substantial recoveries, particularly in respect of the claims amounting to \$982,000, which were paid because of exchange transfer difficulties in the buyers' countries. The amounts to be recovered will be added to income in the years in which the recoveries are effected.

Members are probably very familiar with this corporation, because of the changes introduced in the house to increase its lending powers. There is a summary of its operations given on page 103 where you will see that its expenditures have substantially increased because it is undertaking more work. And there is included a summary of transactions on page 104 which shows the picture in respect of payments of policyholders' claims for losses. We watch this carefully because it gives us a very good idea concerning possible bad debts. I think it was the year or two previous when we had a case we were successful in unearthing in the course of our work, whereby the corporation had been defrauded out of a substantial sum of money in a foreign country, due to the behaviour of some of its agents and subagents. The management went right after it, and I think I am correct in saying that they were successful in collecting.

Now, paragraph 148:

148. *Farm Credit Corporation.* This corporation was established in 1959 by the Farm Credit Act, 1959, c. 43, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the corporation is to make, administer and supervise long term mortgage loans to farmers. The head office is in Ottawa and there are seven branches and 127 field offices throughout Canada.

During the year under review the government of Canada paid the corporation \$2,250,000 to increase its capital investment, and advanced a further \$56,747,000 (net) by way of loans. At March 31, 1963 the equity of the government in the corporation amounted to \$278,158,000, comprising: capital, \$10,350,000; loans, \$258,618,000; accrued interest on loans, \$7,519,000; and reserve for losses, \$1,671,000.

During the year, 6453 loans (6,027) in 1961-62) were disbursed to farmers to a total of \$78,428,000 (\$68,887,000 in 1961-62) and repayments amounted to \$20,287,000 (\$15,197,000 in 1961-62). Loans outstanding at the year-end, including accrued interest, amounted to \$277,485,000 compared with \$217,898,000 at the end of the previous year.

The following is a comparative summary of the income and expense of the corporation for the past two years:

	Year ended March 31 1963	1962
Income—		
Interest earnings	\$11,806,000	\$ 9,152,000
Deduct: Interest on loans from the Government of Canada	10,200,000	7,867,000
	1,606,000	1,285,000
Appraisal, supervision and legal fees	500,000	406,000
	2,106,000	1,691,000
Expense—		
Salaries and employee benefits	2,427,000	1,817,000
Travel	277,000	216,000
Office accommodation	212,000	129,000
Printing, stationery and office supplies	80,000	80,000
Postage, express, telephone and telegraph	78,000	59,000
Fees and expenses of part-time appraisers	21,000	91,000
Depreciation	36,000	31,000
Other	55,000	44,000
	3,186,000	2,467,000
Net loss carried to reserve for losses	\$ 1,080,000	\$ 776,000

The increase of \$719,000 in expense for the year ended March 31, 1963 resulted largely from the continued growth in lending activity and the consequent expansion of the corporation which has resulted in an increase in staff from 183 at March 31, 1960 to 388 at March 31, 1962 and 468 at March 31, 1963.

In my report under section 87 of the Financial Administration Act, on the examination of the accounts of the corporation for the year ended March 31, 1963, reference was made to the reduction in the reserve for losses during the past three years, due in part to the statutory obligation placed on the corporation to lend money at a fixed rate, as follows:

Section 15 of the Farm Credit Act requires the corporation to establish a reserve out of which may be paid "any losses sustained by the corporation in the conduct of its business". The section further provides that the corporation shall credit its net earnings each year to this reserve until the amount of the reserve equals the capital of the corporation, which amounted to \$10,350,000 at March 31, 1963. In the years up to March 31, 1960, the reserve for losses had been built up to an amount of \$3,749,000, including \$3,486,000 accumulated by the predecessor corporation (Canadian Farm Loan Board) to March 31, 1959.

The operations of the corporation over the past three years have resulted in net losses aggregating \$2,078,000 which have reduced the balance of the reserve to \$1,671,000 at March 31, 1963. These losses are due in part to the corporation being required to pay a higher rate of interest on \$42,300,000 borrowed from the government of Canada than the rate of 5% charged, under section 16 of the act, on loans to farmers.

An amount of \$11,500,000 borrowed at 5½% during the year brings to \$107,800,000 the total of amounts which have been borrowed at interest rates of 5% (\$65,500,000), 5½% (\$11,500,000) and 5¾% (\$30,800,000) since April 1, 1959 and loaned to farmers at the statutory interest rate of 5%. In addition to a direct interest loss in excess of \$3,000,000 during the repayment period, on the \$42,300,000 borrowed at 5½% and 5¾%, these interest rates provide no margin to cover administrative expenses and losses on loans.

Since further annual operating losses appear to be in prospect, consideration should be given to means whereby these losses may be covered without further depleting the reserve, as well as to the manner in which the reserve can be brought up to the equivalent of the capital of the corporation as contemplated by section 15 of the act.

I might make reference to page 105 here and to the qualification which I have made in my statutory report. I quote it. It deals with the reduction in the reserve for losses due in part to the statutory obligation placed on the corporation to lend money at a fixed rate. This presents a difficult situation. But as you can see, there is little that can be done about it at this stage.

Now, paragraph 149:

149. *The National Battlefields Commission.* This commission, which was constituted by the National Battlefields at Quebec Act, 1908, c. c. 57 and 58, with the object of acquiring and preserving the historic battlefields at Quebec, comprises nine members, seven of whom are appointed by the governor in council and one by the governments of each of the provinces of Ontario and Quebec.

Prior to 1958 the commission was financed by statutory grants made from time to time under the constituting act but, since then, the commission has been financed by annual parliamentary appropriations. At March 31, 1963 the proprietary equity of the crown in the commission

amounted to \$1,482,000 represented by an investment of \$1,465,000 in capital assets and \$17,000 in working capital. The increase of \$21,000 over the equity at March 31, 1962 is accounted for by increases of \$20,000 in capital assets and \$1,000 in working capital during the year.

The following is a summary of the expenses for the year under review compared with those of the preceding year:

	Year ended March 31	
	1963	1962
Salaries, wages and related expenses	\$ 151,000	\$ 151,000
Repairs of roads and driveways	21,000	—
Policing services	14,000	12,000
Operating supplies and nursery stock	10,000	10,000
Heat, light and power	10,000	10,000
Other expenses	6,000	7,000
	<hr/> 212,000	<hr/> 190,000
Capital outlays	21,000	24,000
	<hr/> \$ 233,000	<hr/> \$ 214,000

The expenditure of \$21,000 for repairs of roads and driveways represents the cost of patching and paving sections of the avenues within the park. No repairs of this nature had been undertaken since 1949.

The expenses of the commission during the year under review, shown above in the amount of \$233,000, were financed to the extent of \$214,000 by parliamentary appropriations and \$19,000 by Governor General's special warrant.

Funds contributed by provincial governments, municipalities and others in the years following the establishment of the commission in 1908, which may be used only for the acquisition of land, with prior parliamentary approval, amounted to \$29,000 at March 31, 1963. The only change in the balance of this account over the past thirty years has been the increase arising out of investment earnings.

The picture is given there as to how this agency is progressing.

Now, paragraph 150:

150. *National Capital Commission.* This commission was established by the National Capital Act, 1958, c. 37, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the commission under the act are "to prepare plans for and assist in the development, conservation and improvement of the national capital region in order that the nature and character of the seat of the government of Canada may be in accordance with its national significance". Subject to the control exercised by the governor in council, the commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The commission consists of 20 members appointed by the governor in council from across Canada.

The proprietary interest of the government of Canada in the commission, including loans, at March 31, 1963 totalled \$83,084,000 represented by: cash, \$1,230,000; inventories of tools, equipment and supplies,

\$243,000; payments for land purchases under negotiation, \$6,016,000; and cost of capital assets, \$75,595,000.

The commission's activities are financed by annual parliamentary appropriations, drawings from the national capital fund and loans from the government of Canada, along with incidental revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1963	1962
Operation and maintenance of parks, parkways and grounds adjoining Government buildings at Ottawa and Hull and general administration		
Expenditures	\$ 3,131,000	\$ 2,579,000
Provided for by:		
Parliamentary appropriations	\$ 2,905,000	\$ 2,317,000
Revenue	226,000	262,000
	<u>\$ 3,131,000</u>	<u>\$ 2,579,000</u>
National Capital Fund		
Balance of Fund in hands of Commission at beginning of year	\$ 302,000	\$ 1,000
Add:		
Amounts drawn from Fund provided by parliamentary appropriations	5,500,000	4,250,000
Proceeds from sales of property	120,000	682,000
	<u>5,620,000</u>	<u>4,932,000</u>
	<u>5,922,000</u>	<u>4,933,000</u>
Deduct:		
Capital outlays for parks, parkways, railway lines and structures	3,367,000	2,968,000
Repayment of loans to acquire property now in use—Queensway	—	345,000
Maintenance of land and rehabilitation works ..	81,000	112,000
Contributions to the City of Ottawa and other municipalities towards the cost of constructing roads, bridges, sewers, etc.	2,732,000	1,206,000
	<u>6,180,000</u>	<u>4,631,000</u>
Balance of Fund in hands of Commission at March 31, 1962		\$ 302,000
Amount due from National Capital Fund at March 31, 1963	\$ 258,000	
Acquisition of property in the national capital region through loans provided by the government of Canada		
Unexpended balance of loans at beginning of year .	\$ 901,000	\$ 684,000
Add:		
Government of Canada loans (net)	9,428,000	6,247,000
Proceeds from sales of property	372,000	3,553,000
	<u>9,800,000</u>	<u>9,800,000</u>
	<u>10,701,000</u>	<u>10,484,000</u>

Deduct:		
Expenditures for acquisition of property	9,471,000	9,583,000
Unexpended balance of loans at end of year	\$ 1,230,000	\$ 901,000
Interest charges on outstanding government of Canada loans		
Interest on loans	\$ 1,776,000	\$ 1,505,000
Provided for by:		
Parliamentary appropriation	\$ 1,475,000	\$ 1,304,000
Net revenue from rentals of property and interest earnings	301,000	201,000
	<u>\$ 1,776,000</u>	<u>\$ 1,505,000</u>

The expenditures incurred in the various activities of the commission, as summarized above, totalled \$20,558,000 during the year compared with \$18,289,000 in the preceding year and were financed as follows:

	Year ended March 31 1963	1962
Parliamentary appropriations	\$10,440,000	\$ 7,570,000
Loans to the Commission	9,099,000	6,030,000
Proceeds from sales of property	492,000	4,235,000
Revenues of the Commission	527,000	463,000
	<u>\$20,558,000</u>	<u>\$18,298,000</u>

In paragraph 59 of this report, reference is made to loan interest paid by the commission out of funds provided by means of annual parliamentary appropriations.

The financing of the National Capital Commission was the subject of a recommendation by this committee in, I think, its sixth report of 1964, having to do with the loan interest paid by the commission out of funds provided by means of annual parliamentary appropriations.

151. *National Centennial Administration.* The National Centennial Administration was established by the National Centennial Act, 1961, c. 60, the objects being to promote interest in, and to plan and implement programs and projects relating to, the centennial of confederation in Canada. The administration consists of a commissioner, a deputy commissioner and eight directors, all appointed by the governor in council, and operations are conducted from a head office in Ottawa.

Section 10 of the act directs that there shall be a special account in the consolidated revenue fund, to be known as the national centennial fund, to which there shall be credited the amounts appropriated by parliament for the purposes of the fund. The Minister of Finance may, on the recommendation of the President of the Queen's Privy Council for Canada, pay to the administration out of the consolidated revenue fund "such amounts as are from time to time required for the purpose of making grants to any province, or to any organization the objects of which are similar to the objects of the administration, for the observance of the centennial of confederation in Canada". The amounts paid by the Minister of Finance are to be charged to the fund but a payment out of the consolidated revenue fund may not exceed the balance standing

to the credit of the fund. With Privy Council vote 55 providing for a payment of \$833,333 to the national centennial fund and no payment having been made out of the fund, a balance of \$833,333 was carried at the credit of the national centennial fund at March 31, 1963. Special appropriation act, 1963, which was given royal assent on July 22, 1963, provided for the payment of \$1,000,000 to the fund in respect of the year ended March 31, 1963. Accordingly, an additional \$166,667 was charged to Privy Council vote 55 and credited to the fund as at March 31, 1963.

Section 11 of the act provides that all expenditures of the administration, other than grants made out of the national centennial fund, shall be made out of moneys appropriated by parliament therefor. The expenses for the period from the establishment of the administration on September 29, 1961 to March 31, 1963 comprised \$275,000 for two grants and \$22,000 for administrative expenses. The grants were made pursuant to the provisions of section 9 of the act which provides that the administration may, subject to the approval of the governor in council, engage in joint projects with, or make grants to, any province or organization with objects similar to those of the administration. The administrative expenses did not include the value of office accommodation and accounting services provided by government departments.

Here you will see the manner in which this administration operates and what it costs. However, as pointed out at the top of page 110, the administrative expenses did not include the value of office accommodation and accounting services provided by government departments. This is a point we are discussing in the subcommittee on the form of public accounts.

Now, paragraph 152:

152. *National Harbours Board.* This board was established in 1936 by the National Harbours Board Act, now R.S., c. 187, and has jurisdiction over the harbours of Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal (including the Jacques Cartier and Champlain bridges), Vancouver and Churchill, together with the grain elevators at Prescott and Port Colborne. The head office of the board is in Ottawa.

The proprietary equity of the government of Canada at December 31, 1962, as shown on the board's balance sheet, totalled \$463,766,000, made up of: assets transferred to the board on its establishment and subsequently, \$56,917,000; loans and advances, \$308,882,000; interest in arrears on loans and advances, \$71,290,000; and reserves, \$100,037,000; less the accumulated deficit of \$73,360,000.

There was a net increase of \$17,945,000 during the year in the outstanding loans and advances. The following summary shows the changes in this account:

Balance, January 1, 1962		\$ 290,937,000
Add:		
Loans during year, secured by certificates of indebtedness	\$ 18,816,000	
Advances	150,000	18,966,000
		<hr/>
		309,903,000
Less: Repayments during year		1,021,000
		<hr/>
Balance, December 31, 1962		\$ 308,882,000
		<hr/>

The interest in arrears on loans increased by \$6,504,000 during the year, representing credits to the proprietary equity of \$10,059,000 (with offsetting charges to expenditure) less payments to the Receiver General of \$3,555,000. There has been a steady increase over the past five years in the outstanding interest in arrears on loans, as follows:

December 31, 1958	\$49,315,000
December 31, 1959	54,011,000
December 31, 1960	59,008,000
December 31, 1961	64,786,000
December 31, 1962	71,290,000

In previous reports it was observed that there appears little prospect of the board being in a position to meet its principal and interest obligations and it was recommended that consideration be given to re-constituting the board's financial structure on a more realistic basis.

Amounts receivable by the board at the year-end included \$112,000 due from the Quebec Natural Gas Corporation for rental charges by the board for an easement for a 20-inch natural gas pipeline on the Jacques Cartier bridge. The amount represents the sum of \$56,000 which was outstanding on December 31, 1961 plus a charge of the same amount for 1962, no payment having been received during the year. Authority for installation of the pipeline was granted by the board on May 1, 1959 subject to later negotiation of the annual rental rate, but after installation of the pipeline the corporation would not agree to the rental rate proposed by the board and requested the board to consider a rental rate that would be little more than nominal. No agreement was reached during the year under review with respect to the rate to be charged.

The Jacques Cartier bridge was operated, until revocation of tolls on June 1, 1962, under a tri-partite agreement, a provision of which required the city of Montreal and the province of Quebec each to pay to the Board one-third of any annual deficit arising from the operations of the bridge, to a maximum of \$150,000. In 1944 the province refused to make its required contribution and as of the end of 1949 its accumulated indebtedness amounted to \$744,425. The bridge has not incurred an operating deficit since 1949 and the accounts of the board continue to show this sum as the amount due from the province. The settlement of this claim and the transfer of the bridge to the province have been subjects of recent negotiation between the board and the province.

As observed in previous reports, the board has been involved in a dispute with the Canadian Pacific Railway regarding the ownership of certain areas at Coal Harbour, Vancouver, since the board's establishment in 1936 (being a continuation of a dispute between the board's predecessor and the railway company since 1880. Pending settlement of the matter, the Canadian Pacific Railway collects rental and other revenue from certain areas in possession of the company, while the harbour authorities do likewise in respect of certain areas which the board has occupied. At December 31, 1962 the board was holding \$139,800 in cash and securities in a special account, while the Canadian Pacific Railway was holding \$220,000 in an escrow account. No progress was made towards settlement of the dispute during the year.

The following is a summary of the operations of the board for its past two financial years:

	Year ended December 31	
	1962	1961
Operating income—		
Harbours	\$ 3,184,000	\$ 3,243,000
Wharves and piers	9,267,000	9,366,000
Grain elevator systems	7,539,000	7,739,000
Cold storage systems	1,130,000	1,172,000
Permanent sheds	2,023,000	1,843,000
Railway systems	705,000	731,000
Jacques Cartier Bridge	1,494,000	3,498,000
Champlain Bridge	163,000	—
Miscellaneous services	1,213,000	1,426,000
	<u>26,718,000</u>	<u>29,018,000</u>
Operating and administrative expenses—		
Harbours	3,870,000	3,775,000
Wharves and piers	1,186,000	871,000
Grain elevator systems	5,235,000	5,416,000
Cold storage systems	1,173,000	1,141,000
Permanent sheds	1,485,000	1,378,000
Railway systems	1,103,000	1,119,000
Jacques Cartier Bridge	426,000	694,000
Champlain Bridge	155,000	—
Miscellaneous services	1,460,000	1,645,000
Administrative expenses	2,259,000	2,004,000
	<u>18,352,000</u>	<u>18,043,000</u>
Net operating income	8,366,000	10,975,000
Other income—		
Income from investments	2,475,000	2,520,000
Miscellaneous	202,000	170,000
	<u>11,043,000</u>	<u>13,665,000</u>
Special charges—		
Provision for interest on loans and advances	9,464,000	8,759,000
Provision for replacement of capital assets	4,493,000	4,349,000
Other special charges	664,000	555,000
	<u>14,621,000</u>	<u>13,663,000</u>
Net loss or (profit)	\$ 3,578,000	(\$ 2,000)

As previously noted, all tolls and charges assessable in respect of the passage of vehicles over the Jacques Cartier bridge were revoked, effective June 1, 1962 in accordance with order in council P.C. 1962-792 of May 28, 1962, and this accounts for the decrease in revenue of \$2,004,000 from this source. The Champlain bridge was opened to traffic on June 29, 1962 and is being operated as a toll bridge.

The increases in operating expenses for harbours and wharves and piers are largely explained by repairs of a nature which do not normally

occur annually. At Quebec, major repairs and reconstruction of a quay wall amounted to \$144,000 and, at Montreal, repairs to a wharf amounted to \$156,000.

Prevailing rate employees of the board, after a period of satisfactory service, become eligible to be contributors under the Public Service Superannuation Act, retroactive to date of commencement of employment. In such cases it becomes necessary for the board to contribute to the public service superannuation account an amount equal to the sum contributed by relevant employees for service prior to the date of eligibility. A large number of prevailing rate employees at Montreal will become eligible to so contribute during 1963 and, accordingly, the sum of \$111,000 was charged in the accounts as a provision for the estimated liability for contributions which will then be required to be made by the Board in respect of prior service. This provision, plus an upward adjustment in salaries of permanent employees, largely explains the increase in administrative expenses during the year ended December 31, 1962

This is a very substantial operation of long standing, which is reflected by the size of its outstanding loans and advances. As you will see on page 110, there is a summary showing the size of its loans and advances, which are in excess of \$308 million, along with substantial interest arrears on loans. You will note we say that as there appears to be very little prospect of the board being in a position to meet its principal and interest obligations, consideration might be given to reconstituting the board's financial structure on a more realistic basis. I think it would be a good idea if this could be more closely examined, because there seems to be an enormous conglomeration of debt that should be sorted out.

Mr. FRANCIS: I wonder if Mr. Henderson would explain this a little further. I do not quite know what he is getting at.

Mr. HENDERSON: The harbours board has jurisdiction over the harbours which are named, Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal, including the Jacques Cartier and Champlain bridges, Vancouver, and Churchill together with the grain elevators at Prescott and Port Colborne.

It has been the practice of the government to finance its operations by means of continued loans which the board is not in a position not only to repay, but not even to meet the interest upon. You will see from the summary of operations for the past two years, that while it broke even in 1961, it was in a loss position in 1962. Tolls have been lifted on the Jacques Carter bridge, and that alone accounted for a decrease of over \$2 million in the year we are looking at. At the same time it has had some difficulty in collecting certain accounts. There has been a lengthy argument going on also with the Quebec Natural Gas Corporation.

Mr. FRANCIS: Would you mind explaining that? It seems to me that surely a private corporation, which has a contract of this nature, must have open to it procedures by which it can collect its accounts. The Quebec Natural Gas Corporation, while it may have been in a very difficult situation at one time, now seems to be doing quite well. Why should it not pay its debts?

Mr. HENDERSON: That is the position the board has been taking as I understand it. I have no doubt that its officers are seeking to improve their posi-

tion vis-à-vis the Quebec Natural Gas Corporation in Montreal perhaps by extending them further time.

Mr. FRANCIS: I wonder if the officers of the harbours board should not be called before this committee so that we might consider this recommendation?

The CHAIRMAN: The point was raised before. I suggest that before we leave the question of crown corporations, the committee might care to give consideration to this or to any other crown corporation, in the hope that while we might not do this while closing off our formal deliberations on the Auditor General's report. We can make a report, nevertheless, and we could provide a full opportunity to call such officials from this or any other crown corporation subject to time being available. In other words, we could write our report, and still conduct an examination of the affairs of any of these crown corporations if we have the time to do it, and if it be the wish of the committee to call such officials before us. I think the steering committee might consider the matter before the next meeting, and that the members might indicate their preference or desire as to this or any other corporation that they might wish to have made the subject of discussion.

Mr. REGAN: I had some conversation with you on this matter the other day, following our last meeting. I think it is true that some of the crown corporations have never been called to appear before this committee.

The CHAIRMAN: Most of them.

Mr. REGAN: I understand that the St. Lawrence seaway authority has never appeared here. I would like to see them here, and also the national harbours board, which conducts vast operations in this country's economy. And I would hope that next year we might have an opportunity to examine two or three other crown corporations.

Mr. FRANCIS: Possibly one or two of the ones that the Auditor General does not himself audit. I would like to see Canadian Mortgage and Housing Corporation brought here, for example.

Mr. ROCK: I believe that the hon. member wishes to have the St. Lawrence seaway authority brought here in order to protect his harbour at Halifax.

Mr. REGAN: You have given me a motive, in any event.

Mr. STENSON: Atomic Energy of Canada Limited has never been before the committee.

The CHAIRMAN: No, it has not. And this brings up a question I raised at the last meeting. I think there are some 35 crown corporations, and that in eight years only five have come before the public accounts committee. So on that basis it would appear to be a very long time before they all do so. We might give some thought to making a recommendation for next year to set up a strong and active working subcommittee to deal with the affairs of some of the smaller corporations, without our having to take up the time of the main committee in its plenary sessions. I simply throw that out as a suggestion. We might consider it before we adjourn. The steering committee will be meeting before too long, and we perhaps might give consideration to the suggestion before our next meeting. May we now proceed for a little longer so that perhaps by the next meeting we might conclude our official discussion.

Mr. HENDERSON: I think it would be very useful to examine the national harbours board with a view to studying its heavy debt position, and to see whether or not it would be possible to come up with some recommendation

about it. Mr. Francis will probably notice on page 111 how the board has been involved in a dispute with the Canadian Pacific Railway since 1880, which is not yet settled.

Mr. FRANCIS: That is what worries me, and about the Quebec natural gas matter. I would like to see something resolved.

Mr. HENDERSON: Mr. Stokes informs me that no agreement has been reached yet on the Quebec natural gas matter.

153. *Northern Canada Power Commission.* This commission, which was established in 1948 and operates under the Northern Canada Power Commission Act, 1956, c. 44, consists of three members appointed by the governor in council and has its head office in Ottawa. The objects of the commission are to construct and operate electric power plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the governor in council, in any other part of Canada. Hydro-electric plants are operated at Snare river, Northwest Territories and at Mayo river and Whitehorse rapids, Yukon Territory and thermal-electric stations are in operation at Fort Resolution, Fort Smith, Fort Simpson, Inuvik, Fort McPherson and Frobisher Bay Northwest Territories and at Field, British Columbia.

The proprietary equity of the government of Canada, as shown on the commission's balance sheet at March 31, 1963 was as follows:

	March 31	
	1963	1962
Advances:		
Under section 14 of the Act—for investigation of projects	\$ 50,000	\$ 50,000
Under section 15 of the Act—for capital expenditures, including accrued interest	18,960,000	19,104,000
Equity represented by depreciated value of public utilities at Inuvik N.W.T., financed by advances under section 15 of the Act recoverable from funds to be appropriated by Parliament according to Order in Council P.C. 1957-36/626 of May 3, 1957 .	6,513,000	6,759,000
Reserve for contingencies pursuant to section 10 of the Act	1,601,000	1,611,000
Reserve for extension, expansion and improvements, equivalent to expenditures incurred on acquisition of capital assets, as permitted under section 22 of the Act	242,000	228,000
Surplus, per Statement of Surplus	856,000	913,000
	<u>\$23,222,000</u>	<u>\$28,665,000</u>

Subsequent to the fiscal year-end, special appropriation act, 1963 (Vote 119) authorized the write-off of the advances made to the commission for the construction and installation of the public utilities at Inuvik, Northwest Territories, thus permitting a corresponding elimination from proprietary equity in the commission's accounts.

The commission acts as agent for the government of Canada in respect of loans made under the Atlantic Provinces Power Development Act, 1957-58, c. 25, and, in this capacity, advances are made to the provincial power commissions of Nova Scotia, New Brunswick and Newfoundland. As of March 31, 1963 these outstanding loans totalled \$23,170,000, of which \$5,861,000 was added during 1962-63.

A summary of the income and expenses of the commission for the past two years follows:

	Year ended March 31	
	1963	1962
Income—		
Sales of power	\$ 2,798,000	\$ 3,036,000
Income arising from construction, maintenance and operation of facilities for government departments and others	568,000	471,000
Sale of steam and water heat	365,000	375,000
Miscellaneous	123,000	106,000
	<hr/> 3,854,000	<hr/> 3,988,000
Expense—		
Operating and maintenance	2,135,000	1,823,000
Administrative	236,000	227,000
Interest on advances from the Government of Canada	757,000	775,000
Provision for depreciation (equivalent to repayment of principal of advances from the Government of Canada)	498,000	494,000
	<hr/> 3,626,000	<hr/> 3,319,000
Net income	<hr/> \$ 228,000	<hr/> \$ 669,000

During the year the rates charged for electric power were reduced and there was a decrease of approximately \$484,000 from the preceding year in the revenue from sales of power attributable to the lower rates. However, consumer demand for electric power continued to rise and the decline in revenue resulting from the lower rates was offset to the extent of \$247,000 by revenue from increased consumption.

The operations of this commission are quite interesting, and at the same time rather involved. We do not have any adverse comment to make in this note.

Now, paragraph 154:

154. *Northern Ontario Pipe Line Crown Corporation*. This corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, 1956, c. 10, for the purpose of constructing the northern Ontario section of the all-Canadian gas pipe line and leasing it (subject to approval by the governor in council) to Trans-Canada Pipe Lines Limited, with an option to purchase.

In October 1958 the corporation entered into an agreement to lease the northern Ontario section to Trans-Canada Pipe Lines Limited for a period of 25 years, with an option to purchase the facilities, exercisable within the period of the lease agreement. Under the terms of the lease, all expenses of operation, repairs and maintenance, taxes and other expenses of upkeep were borne by the lessee.

Section 6 of the act enabled the corporation to borrow, from the government of Canada or otherwise, the funds necessary for the construction of the facilities, provided that the borrowings outstanding at any time did not exceed \$130 million. Borrowings under this section were solely from the government and were covered by demand notes bearing interest at the rate of $3\frac{1}{2}\%$ per annum. At December 31, 1962, \$113,137,000 was outstanding, a decrease of \$7,843,000 from the pre-

ceding year, being the net result of additional loans of \$1,545,000 and repayments of \$9,388,000.

The capital cost of the northern Ontario section at December 31, 1962 amounted to \$129,866,000, comprising assets acquired of \$119,873,000 and engineering, administrative and financing expenses of \$9,993,000.

The corporation's accumulated surplus increased by \$118,000, from \$365,000 at January 1, 1962 to \$483,000 at December 31, 1962. This increase was accounted for by the excess of interest earned in accordance with the lease agreement, \$4,205,000, over the interest of \$4,087,000 paid on borrowings from the government of Canada.

A footnote to the corporation's balance sheet at December 31, 1962 stated that Trans-Canada Pipe Lines Limited had indicated its intent to exercise the option to purchase the northern Ontario section in 1963. This option has since been exercised and the purchase was completed on May 29, 1963 whereupon the corporation discharged its liability for the amount then due to the government of Canada for outstanding loans and interest accrued thereon. In accordance with the terms of sale, Trans-Canada Pipe Lines Limited assumed responsibility for the negotiation and settlement of all claims then outstanding and any other claims which may arise in the future.

Trans-Canada Pipe Lines Limited has since exercised its option as indicated on page 115. This was completed on May 29, 1963, when the corporation discharged its liability for the amount then due to the government of Canada for outstanding loans and interest accrued thereon. In accordance with the terms of sale, Trans-Canada Pipe Lines Limited assumed responsibility for the negotiation and settlement of all claims then outstanding and any other claims which may arise in the future.

Now, paragraph 155:

155. *Northern Transportation Company Limited.* This company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Northern Transportation (1947) Limited was incorporated under the Companies Act, 1934, to take over the business and undertaking of a predecessor company which had been incorporated under a province of Alberta charter in 1935 and whose shares had been acquired when the capital stock of Eldorado Mining and Refining Limited was expropriated by the government in 1944. The corporate name was changed to Northern Transportation Company Limited in 1952. Although the company is authorized by its letters patent to carry on a general transportation business by land and water throughout Canada and elsewhere, its activities, directed from administrative headquarters in Edmonton, have been almost wholly confined to the Mackenzie river water system and the adjacent area of the Arctic ocean.

The equity of Eldorado Mining and Refining Limited at December 31, 1962 was \$6,159,000, comprising capital stock of \$152,000, surplus of \$4,757,000 and a reserve for insurance of \$1,250,000. The reserve for insurance was increased by \$750,000 during the year under review by a transfer of this amount from surplus in accordance with a resolution of the board of directors to discontinue all physical damage insurance coverage with commercial companies by June 30, 1962. The reserve is fully invested in short-term bank deposits.

The following is a comparative summary of the operating results of the company for its last two financial years:

	Year ended December 31 1962	1961
Income—		
Freight earnings	\$ 2,233,000	\$ 2,583,000
Expense—		
Operating	1,265,000	1,361,000
Depreciation	488,000	527,000
Administrative	240,000	222,000
	1,993,000	2,110,000
Net income from operations	240,000	473,000
Miscellaneous income	142,000	93,000
	382,000	566,000
Provision for income tax	250,000	312,000
Net income	\$ 132,000	\$ 254,000

The decline in freight earnings which began in 1959 continued during the year ended December 31, 1962 with a decrease of \$350,000, mainly due to reduced traffic caused by the curtailment of uranium production at the Beaverlodge mine of Eldorado Mining and Refining Limited. The reduction of \$96,000 in operating expenses reflected the decreased level of operating activity, as well as a continuation of the cost reduction policy put into effect last year.

There is an explanation given on page 166 for the reason for the drop in income arising largely from the depletion in freight earnings due to reduced traffic caused by the curtailment of uranium production.

Now, paragraph 156:

156. *Park Steamship Company Limited*. This company, incorporated in 1942 under the Companies Act, 1934 for the purpose of supervising the operation of crown-owned cargo vessels, ceased operations when the "park" fleet was sold in 1946-47. Its current activities are limited to the settlement of occasional claims for compensation by seamen for injuries that had been sustained during the operating period, and these activities are attended to by staff of the Canadian Maritime Commission.

This is practically inactive at the present time. I have recommended to the minister that consideration be given to winding it up and surrendering its charter, since it had done its work.

Now, paragraph 157:

157. *Polymer Corporation Limited and Subsidiary companies*. Polymer Corporation Limited was incorporated in 1942 under the Companies Act, 1934 pursuant to the provisions of section 6 of the department of munitions and supply act, 1939, c. 3 as amended by 1940, c. 31. At December 31, 1962 there were three wholly-owned subsidiary companies: Polysar Belgium S.A., Polysar Nederland N.V., and Polysar International S.A., as well as one subsidiary, Polymer Corporation (SAF) in which Polymer held a 95% equity and the Banque de Paris et des Pays-Bas the remaining 5%. Polymer Corporation (SAF) was incorporated under the laws of France in January 1961 and in the fall of 1962 its special purpose rubber plant located near Strasbourg commenced opera-

tions, although output to the end of the year was nominal. Polysar Belgium S.A. was formed under the laws of Belgium in December 1961 and construction of a butyl rubber plant near Antwerp began in 1962. Polysar Nederland N.V., which is a holding company, was incorporated in accordance with the laws of Holland in May 1962. Polysar International S.A., with headquarters in Fribourg, Switzerland and branch offices in Vienna, London, Tokyo and Mexico City, was incorporated under Swiss law in June 1962 for the purpose of marketing all Polymer products outside of North America. The parent company produces synthetic rubbers and chemicals at Sarnia where the head office is also situated.

The equity of the crown in Polymer Corporation Limited and its subsidiary companies at the year-end amounted to \$79,105,000, consisting of capital stock of \$30,000,000 and retained earnings of \$49,105,000. During the year under review dividends of \$3,000,000 were paid to the Receiver General, the same amount as in the previous year.

The results of operations for the past two years are set out in the summary which follows. Since none of the subsidiary companies had commenced operations by December 31, 1961 and only one had begun full-scale operations by December 31, 1962, the amounts shown in 1961 are with respect to the operations of the parent company only, and the amounts shown for 1962 include, in addition, only the operating results of the one subsidiary for the period from September 1 to December 31, 1962.

	Year ended December 31	
	1962	1961
Sales	\$87,022,000	\$87,679,000
Other income	435,000	835,000
	<hr/> 87,457,000	<hr/> 88,514,000
Cost of sales	63,634,000	64,308,000
Selling, administrative and research expenses	4,774,000	4,144,000
	<hr/> 68,408,000	<hr/> 68,452,000
Net income before provision for income tax	19,049,000	20,062,000
Provision for income tax	8,765,000	9,842,000
Net income	<hr/> \$10,284,000	<hr/> \$10,220,000

Additions to fixed assets during the year, amounting to \$23,517,000, were almost equally divided between the costs of the capital development program of the subsidiary companies and the costs of the expansion of the parent company plant at Sarnia. The managements of the several companies estimate that continuation of the capital development program will involve expenditures totalling \$21,000,000 during the year ending December 31, 1963.

In computing taxable income for the years 1961 and 1962 the company took advantage of capital cost allowances permitted under the Income Tax Act which were in excess of depreciation charged in the accounts. The effect of this procedure was to defer payment of income tax totalling \$3,460,000 until future years when depreciation charges may be in excess of capital cost allowances.

To finance construction of their plants in France and Belgium, Polymer Corporation (SAF) borrowed NF 35.600.000 (\$7,817,200) repayable 1965-71, and Polysar Belgium S.A. negotiated a loan of BF 450.000.000 (\$9,729,729), repayable 1969-77. No funds were drawn

down by Polysar Belgium S.A. under its loan during 1962. With the exception of NF 15,280,000 (\$3,354,900), the loans are guaranteed by the parent company and all are repayable in the currency in which they were obtained.

This has to do with Polymer Corporation Limited and its subsidiary companies which we were discussing earlier. I see that Mr. Winch is no longer present, but there is an explanation here dealing with the manner in which the corporation operates. On page 118 particulars are given as to how construction of the plants were arranged in France and Belgium. You might wonder why these borrowings would be undertaken by a crown corporation in this manner. I might add that this has been done very largely as part of the arrangements under which the Polymer Corporation enjoys excellent relationships in the countries concerned. And as you know, in setting up plants in these countries, you have a considerable number of permits and the like to obtain, and when this is done the hope is sometimes expressed that you like to borrow some money in those countries.

Now, paragraph 158:

158. *The St. Lawrence Seaway Authority*. Established by the St. Lawrence Seaway Authority Act, R.S., c. 242 (proclaimed July 1, 1954) the authority maintains and operates the Canadian section of the 27 foot waterway between the port of Montreal and Lake Erie. The section of the seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. In accordance with an agreement made in 1959 between Canada and the United States, revenues from tolls are divided between the two Seaway entities in proportion to their annual costs of operation and maintenance, interest charges and repayment of loans. The authority also operates non-toll canals at Lachine, Cornwall and Sault Ste. Marie, the net operating cost being provided for by annual parliamentary appropriations.

The authority is a corporation consisting of a president and two other members as provided by the Act. Its head office is at Ottawa, with operating headquarters at Cornwall and regional headquarters at St. Lambert, Cornwall and St. Catharines.

The crown's equity at December 31, 1962 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport, April 1,	
1959 (including Welland Ship Canal at a value of \$130,717,000)	\$180,483,000
Loans under section 25 of the Act	334,500,000
Interest on loans—deferred	49,388,000
	<u>564,371,000</u>
Deduct: Deficit	37,934,000
	<u>\$526,437,000</u>

The following is a summary of the income and expense of the Authority for its past two financial years:

	Year ended December 31	
	1962	1961
Income—		
Tolls	\$ 9,556,000	\$ 9,548,000
Net income from operation of Cornwall-Roosevelt-town International Bridge	121,000	—
Other	1,015,000	899,000
	<u>10,692,000</u>	<u>10,447,000</u>

	Year ended December 31	
	1962	1961
Expense—		
Operating expense	2,592,000	2,602,000
Maintenance expense	2,087,000	1,728,000
Operating and maintenance supervision	1,232,000	1,071,000
Administrative expense	1,760,000	1,617,000
	7,671,000	7,018,000
Deduct: Portion of supervision and administrative expense applicable to non-toll canals	324,000	288,000
	<u>7,347,000</u>	<u>6,730,000</u>
Net operating income before providing for interest and for replacement of machinery and equipment	3,345,000	3,717,000
Interest on loans from the Government of Canada	15,397,000	13,793,000
Interest on contractors' claims and other accounts .	164,000	—
Provision for replacement of machinery and equipment	888,000	200,000
	<u>16,449,000</u>	<u>13,993,000</u>
Net loss	<u>\$13,104,000</u>	<u>\$10,276,000</u>

Income for the year was adversely affected by the government's decision to suspend tolls for the transit of the Welland canal, effective July 18, 1962. According to statistical records, this suspension of tolls resulted in a loss of revenue of \$953,000 during the remainder of the year.

The extent by which revenues in 1962 fell short of meeting expenses in each of the two sections of the waterway and of the North Channel Bridge is shown in the following summary:

	St. Lawrence River Section	Welland Canal	North Channel Bridge	Total
Tolls	\$ 8,914,000	\$ 642,000	\$ —	\$ 9,556,000
Other income	217,000	798,000	121,000*	1,136,000
	<u>9,131,000</u>	<u>1,440,000</u>	<u>121,000</u>	<u>10,692,000</u>
Expenses of operation, maintenance and administration	2,931,000	4,416,000	—	7,347,000
Net operating profit (loss)	<u>6,200,000</u>	<u>(2,976,000)</u>	<u>121,000</u>	<u>3,345,000</u>
Interest on loans ...	13,397,000	1,795,000	205,000	15,397,000
Interest—other	153,000	11,000	—	164,000
Provision for replacement of machinery and equipment	503,000	379,000	6,000	888,000
	<u>14,053,000</u>	<u>2,185,000</u>	<u>211,000</u>	<u>16,449,000</u>
Net loss	<u>\$ 7,853,000</u>	<u>\$ 5,161,000</u>	<u>\$ 90,000</u>	<u>\$13,104,000</u>

* Excess of income over operating expense for the period from July 3 to December 31, 1962.

On the St. Lawrence river section the net operating profit of \$6,200,000 compares with profits of \$5,893,000 in 1961, \$5,178,000 in 1960 and \$5,-894,000 in 1959. On the Welland canal, the net operating loss of \$2,976,000 compares with losses of \$2,176,000 in 1961, \$1,726,000 in 1960 and \$633,000 in 1959.

Toll revenues for four full navigation seasons have been substantially less than had been anticipated by the Canadian and United States toll committees in 1958, as shown below:

	St. Lawrence River		Welland Canal	
	Estimated	Actual	Estimated	Actual
1959	\$ 9,301,000	\$ 7,105,000	\$ 2,060,000	\$ 1,224,000
1960	10,789,000	7,156,000	2,215,000	1,326,000
1961	12,277,000	8,086,000	2,369,000	1,462,000
1962	13,765,000	8,914,000	2,575,000	642,000*
	<u>\$46,132,000</u>	<u>\$31,261,000</u>	<u>\$ 9,219,000</u>	<u>\$ 4,654,000</u>

* Tolls for the transit of the Welland Canal were suspended as of July 18, 1962.

The authority and the Saint Lawrence Seaway Development Corporation are to report to their respective Governments in 1964 on the adequacy of the toll structure to provide sufficient revenue to meet their operating costs and financial obligations. In this connection, it has been estimated that, beginning with 1964, the authority will require revenues of about \$30 million each year for 46 years to meet operating costs and debt payments under the present financial arrangements. Tolls and other income in 1962 amounted to only \$10.7 million including \$642,000 of Welland canal tolls which, as noted above, were suspended in 1962.

Section 25 of the St. Lawrence Seaway Authority Act provides that the Minister of Finance, with the approval of the governor in council, may from time to time make loans to the authority. Section 13 of the act, as amended, states that the aggregate of the amounts so borrowed under the Act and outstanding shall not at any time exceed \$345,000,000. At December 31, 1962 the authority was indebted to the government of Canada in respect of loans and deferred interest in the total amount of \$383,888,000, made up as follows:

Loans under section 25 of the Act	\$ 334,500,000
Interest to December 31, 1959—deferred	19,427,000
Interest for the year 1961—deferred	14,289,000
Interest for the year 1962—deferred	15,672,000
	<u>\$ 383,888,000</u>

Section 16 of the St. Lawrence Seaway Authority Act requires that the tolls shall be fair and reasonable and designed to provide a revenue sufficient to defray the cost to the Authority of its operations, which costs shall include (a) payments in respect of interest on amounts borrowed by the authority, (b) amounts sufficient to amortize the principal of amounts so borrowed over a period not exceeding fifty years, and (c) the cost of operating and maintaining the canals and works under the administration of the authority, including all operating costs of the authority and such reserves as may be approved by the minister. Pursuant to these provisions, the original conditions under which loans were made to the authority under section 25 of the act required the pay-

ment of interest only in the first three full years of operation (through the year ending December 31, 1962) and thereafter payment of annual amounts sufficient to amortize over a period of 47 years (or by December 31, 2009) all loans and interest thereon.

The terms of the authority's financing arrangements were amended by order in council P.C. 1961-1863 of December 29, 1961 and the principal amount of loans received to finance construction of the Seaway, together with interest previously deferred and all other interest now accrued or accruing up to December 31, 1963, is now to be repaid, together with current interest thereon, in 46 equal annual instalments commencing December 31, 1964.

In accordance with these financial arrangements, the operations for 1962 have been charged with interest amounting to \$15,397,000 (an additional amount of \$275,000 was included in construction costs), but this interest has not been paid and is included in the balance sheet as part of the proprietary equity. There was no charge to the year's operations with respect to amortization of the principal of the amounts borrowed.

The costs of operating and maintaining the canals and works under the administration of the authority are defined under paragraph (c) of section 16 as including all operating costs of the authority and such reserves as may be approved by the Minister. The authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance costs and that the amortization over the 50 year period of the principal of the amounts borrowed, together with interest as required by subsections (a) and (b), and provision for replacement of machinery and equipment as mentioned below, meets the requirements of the act. Accordingly no provision for depreciation has been included in the costs for the year under review.

Provision has been made during the year toward the cost of replacing machinery and equipment, including lock, bridge and building machinery and equipment, in the amount of \$2,710,000, of which \$1,822,000 was charged to deficit account, being additional provision required for the years 1959 to 1961, and \$888,000 was charged to expense in respect of the year ended December 31, 1962. The reserve for replacement of machinery and equipment, as thus augmented, amounted to \$3,343,000 at December 31, 1962. No provision has been made in the accounts for the replacement of buildings, lock gates and lock and bridge structures. The authority considers that these seaway works can be maintained in working condition at all times under its maintenance program.

The governor in council, by order in council P.C. 1963-572 of April 11, 1963 and pursuant to a 1956 agreement between the Canadian National Railway Company and The St. Lawrence Seaway Authority, has determined that responsibility rests with The St. Lawrence Seaway Authority for the cost of installing a lift span in the Victoria bridge at Montreal and of constructing an alternative bridge, containing a moveable span, to carry rail as well as highway traffic over the St. Lawrence seaway. The order accordingly provided that the Authority should reimburse the Canadian National Railway Company for its outlays of \$11,753,000 on these works, together with interest thereon computed to December 31, 1962 in the amount of \$2,228,000 and interest on the same amount of \$11,753,000 from December 31, 1962 to the date of reimbursement.

Because the borrowing powers of the authority were close to their statutory limits of \$345 million and could not cover the above-noted reimbursement of \$11,753,000, the governor in Council, by P.C. 1963-

1140 of July 30, 1963, directed that the payment of the said amount be made from parliamentary appropriations for 1963-64 and that the matter of reimbursement by the authority be reserved for later decision. The above order in council also provided that the interest payment to the railway company should be made from parliamentary appropriations but should not be recovered from the authority as the lengthy delay in settlement of the matter could not be blamed on the Authority since, under the 1956 agreement, this was a matter for action by the governor in council.

The following table summarizes the expense and income and shows the remedial works and capital expenditure relating to the non-toll canals operated or administered by the authority for the past two years:

	Year ended December 31	
	1962	1961
Expense—		
Operating expense	\$ 1,086,000	\$ 584,000
Maintenance expense	940,000	749,000
Operating and maintenance supervision	181,000	204,000
Portion of Authority's supervision and administrative expense applicable to non-toll canals ..	324,000	288,000
Employee benefits	107,000	111,000
	<hr/>	<hr/>
Income from rentals, wharfage, etc.	2,638,000	1,936,000
	<hr/>	<hr/>
	378,000	515,000
	<hr/>	<hr/>
Operating deficit	2,260,000	1,421,000
Remedial works—municipal properties	—	72,000
Capital expenditures	76,000	\$ 1,811,000
	<hr/>	<hr/>
Operating deficit, remedial works and capital expenditures (recovered from parliamentary appropriations)	\$ 2,336,000	\$ 1,811,000
	<hr/>	<hr/>

The increase of \$502,000 in operating expense during 1962 is more than accounted for by increased grants in lieu of municipal taxes, which amounted to \$700,000 compared with \$128,000 in 1961.

Mr. RYAN: Might I ask Mr. Henderson why it is that Polymer pays income tax, whereas the Northern Power Commission, paragraph 153 on page 113, does not seem to do so? According to the net income figures set out, and shown on page 144, there is a suggestion Northern Canada Power Commission pays no income tax.

Mr. STOKES: Agency corporations do not pay income tax. Northern Canada Power is one of these. But proprietary corporations do so if they have income, and Polymer Corporation is a proprietary corporation. But Northern Power Commission operates or provides a service to the municipalities in the north country and is not supposed to make a profit. The rates that they charge for power provided to the area are supposed to be just sufficient to cover the cost of operation, repayment of principal of loans, with interest thereon. If you should add an income tax charge on top of all that, you would be overburdening the cost of power in that particular area.

Mr. FRANCIS: May I ask if Polymer Corporation pays municipal business taxes?

Mr. STOKES: It does not pay municipal business taxes as such, but it pays a grant in lieu of local taxes, in an amount which otherwise would be payable as taxes.

Mr. FRANCIS: Canadian Mortgage and Housing Corporation pays the city of Ottawa property taxes, but it refuses to pay a business tax. It does not pay a grant, yet it is in the same position as a private company. Is it true that Polymer pays its grant in lieu of both business tax and property tax in the county in which it operates?

Mr. STOKES: Yes, I believe it does, but I shall check on it and get you the information.

Mr. ROCK: Do you not think that Polymer Corporation should be on the same basis as any incorporated business, and therefore it should pay all taxes, and pay no grant whatsoever? I think there is something wrong with this outlook. If Canada is going to organize certain companies as businesses, where private enterprise cannot enter into the field, then it should be an incorporation, and I think it would only be fair that it be placed on exactly the same business basis as any other corporation which manufactures a commodity, and therefore it should pay taxation in its municipality and act like other corporations, and not give out grants in lieu of taxation. I think there is something wrong, and I think it should be investigated.

Mr. HENDERSON: You have made a good point. But from our standpoint it is a matter of government policy; that is, the payment of a grant in lieu of taxes. We consider it a matter of government policy and I do not think we should express an opinion on it.

The St. Lawrence seaway authority picture is set out in paragraph 158. Perhaps it is not necessary to go into it in much detail in view of the fact that you propose to call them before the committee in due course. I do not need to remind you of the difficulty it is having in meeting its obligations. The interest has been deferred again for another year. You will see from the statement at the bottom of page 120 the size of its debt, and how the interest has had to be deferred. There is a great deal of detail given here regarding the authority, and perhaps it would be better to leave it unless the members have some questions, until it comes before the committee.

The CHAIRMAN: Are there any questions?

Mr. ROCK: I would like to ask a question or two. As I understand matters at the bottom of page 120 and the top of page 121, is it your feeling that section 16 of the St. Lawrence Seaway Authority Act is not at present being complied with? Is that accurate?

Mr. HENDERSON: I do not think I said that.

Mr. ROCK: You point out that the rates do not provide a fair and reasonable revenue sufficient to defray the cost to the authority of its operation. In other words, at the present time these rates are not providing adequate revenues, and that they are not likely to be adequate for some period of time to come. Yet the authority has not taken any action to increase the rates. Would that not indicate that they are going beyond or outside the responsibilities as laid down by section 16?

Mr. HENDERSON: That is a very nice point, and you are making it well. It is not easy to interpret section 16, because it is not too specific as to what cost shall include. This is just the sort of question which I think might very usefully be discussed when the authority appears before the committee.

Mr. REGAN: The only problem about that again is that I gather that if we are to have them appear, it would be after our report is drafted. Is that correct?

Mr. HENDERSON: I think you would want to make a very positive study, and that it would take up a complete meeting, one at which these things could be explored in detail. I would like to have the officials here to discuss their interpretation of section 16.

The CHAIRMAN: I think that this is a subject which the committee must decide upon ultimately, and that we might draft a report. But I suppose it would depend on what happens, whether there be a recess at Christmas or a prorogation. If it appears that there will be a prorogation, then there is no problem presenting itself at all, because reports Nos. 7, 8 and 9 may also be made subject to a subsequent report. We would have completed our consideration of Mr. Henderson's 1963 report, and this would still leave us free to make an additional report to include this or any other corporation. But we could close our books on his report, leaving us free to bring in a subsequent report regarding these corporations, which we are in fact standing.

Mr. HENDERSON: If I may offer one final word to Mr. Regan, you will notice on page 121, and in regard to section 16, how I explain that "the costs of operating and maintaining the canal and works under the administration of the authority are defined in paragraph (c) of section 16 as including all operating costs of the authority and such reserves as may be approved by the minister. The authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance costs and that the amortization over the 50 year period of the principal of the amounts borrowed, together with interest as required by subsection (a) and (b) and provisions for replacement of machinery and equipment as mentioned below, meets the requirements of the act. Accordingly no provision for depreciation has been included in the costs for the year under review."

And that perhaps is essentially your question. I am giving you an interpretation placed on it by the authority, but at the same time it does not include depreciation which is usually regarded as an element of cost.

Mr. REGAN: Yes.

Mr. HENDERSON: This involves an interpretation placed on it by officials, and it is something which I think would be useful to discuss with them when they are before us.

The St. Lawrence Seaway Development Corporation in the United States did not include depreciation in its costs. Their accounts were qualified by the comptroller general in Washington, and the whole matter has been the subject of very intense discussion there. And they have since been directed to take it up, and to include it. I take rather more of a middle-of-the-road view of the matter, and I have been prepared to accept the explanation given or placed on it by the officers of the corporation bearing in mind that they are amortizing the cost.

Mr. REGAN: Aside from depreciation, they are not fully meeting their operating costs.

Mr. HENDERSON: The tolls are not adequate to meet the cost. That is all too obvious from the figures shown here.

Mr. REGAN: As the figures indicate, they are actually possibly produced in two ways: One by not including depreciation, and even if they are correct in that view, they still do not comply with the act; they need to increase the tolls because they still have inadequate operating revenue to meet their operating costs.

Mr. HENDERSON: You are asking me to give a legal opinion.

Mr. REGAN: They still have inadequate income to meet their operating costs.

Mr. HENDERSON: That is clearly indicated from the figures given here. It is a point on which I have not yet had the benefit of legal advice. But being in a position now to obtain some, I hope to take steps to secure an opinion, because it is an important point.

The CHAIRMAN: We have finished with the crown corporations. We have left only a few departmental activities which we could probably dispose of at our next meeting a week from today, plus this question of crown corporations, plus any questions of general recommendations regarding crown corporations and having to do generally with these other crown companies. So let us adjourn now with the hope that a week from today we may conclude our formal inquiry, leaving the question of crown corporations to come before us at a future time. The meeting is now adjourned.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 27

Public Accounts, Volumes I, II and III (1963)

Report of the Auditor General to the House of Commons
1963

TUESDAY, NOVEMBER 17, 1964

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada, and Mr. A. B. Stokes
of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice Chairman: Mr. P. Tardif

and Messrs.

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Cameron (<i>High Park</i>),	Grégoire,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>),	Rock,
Crouse,	Leblanc,	Rondeau,
Danforth,	Legault,	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	Southam,
Fane,	Mandziuk,	Stefanson,
Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Grafftey,	Pigeon,	Winch—50.

M. Slack

Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY November 17, 1964.

(41)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Fane, Francis, Frenette, Harkness, Leblanc, Legault, Lessard (*Saint-Henri*), Loiselle, McMillan, Pilon, Prittie, Regan, Rock, Ryan, Stefanson, Stenson, Tucker, Wahn and Winch. (21)

In attendance: Mr. A. M. Henderson, Auditor General of Canada, and Mr. A. B. Stokes, of the Auditor General's office.

The Committee resumed consideration of the 1963 Report of the Auditor General.

The Chairman tabled a return relating to Crown companies, Auditing of Accounts, which was ordered printed as an Appendix to the record of this day. (*See Appendix 1*).

The Auditor General tabled a return from the External Aid Office supplying answers to questions by Messrs. McLean (*Charlotte*) and McMillan at the sitting of October 22nd; this return was ordered printed as an Appendix to the record of this day. (*See Appendix 2*).

Mr. Stokes read into the record an answer to a question by Mr. Francis of November 10th relating to Polymer Corporation.

Mr. Henderson was further examined on his statement of November 10th relating to Crown Corporations and other similar public instrumentalities whose accounts are not examined by the Auditor General.

The Auditor General reviewed paragraphs 159 to 182 inclusive of his 1963 Report and was examined thereon.

The Committee, having completed its examination of the 1963 Report, the Chairman thanked the members of the Committee and also thanked Mr. Henderson and his staff.

The Chairman announced that the Committee would meet later in camera to consider "draft" reports to the House.

At 11.00 a.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, November 17, 1964.

The CHAIRMAN: I think probably we had better come to order now. There are five committee meetings this morning and I know that some of you gentlemen have to go elsewhere later on, so I will call the meeting to order.

Possibly, since you have this material before you, we might deal with the question asked by Mr. Francis at the last meeting of the committee, whether Polymer Corporation Limited pay municipal business taxes. I think we might do that before we finish the last few items which are in the Auditor General's report for 1963.

First of all, may I have your consent to the tabling of the public accounts, or the extracts from the debates of the Senate, dealing with fees paid to private auditors, and may this be printed as an appendix to today's proceedings; is that agreed?

Agreed.

Have you something to file, Mr. Henderson?

Mr. HENDERSON (*Auditor General*): I would like to take the opportunity, if I may, to place on the record a letter furnished by M. H. O. Moran, the director general of external aid, in answer to questions asked by Dr. McMillan and Mr. McLean at the meeting of October 22, at which time I agreed to obtain information from the director general.

The CHAIRMAN: Thank you.

Mr. HENDERSON: At the same time, questions were asked at the last meeting regarding the taxes paid by Polymer Corporation Limited in Canada, and I would like to ask Mr. Stokes if he could furnish this information.

Mr. A. B. STOKES (*Audit Director, Auditor General's Office*): Yes. Mr. Francis asked if Polymer Corporation paid municipal business taxes. Now, in the computation of the grant in lieu of municipal taxes paid by Polymer Corporation the municipal assessment for business taxes has been taken into consideration to the extent of 60 per cent of the assessment.

In 1963 Polymer paid a grant in lieu of municipal taxes to the city of Sarnia to the total of \$580,708.57, and this was with respect to land, \$45,986.15; buildings, \$317,965.51; business taxes—this is 60 per cent of the assessment—\$216,756.91.

Mr. FRANCIS: Mr. Chairman, may I ask—

The CHAIRMAN: Before you ask a question, Mr. Francis, is it agreed that the letter of November 6, from Mr. Moran to Mr. Henderson, be printed as applying to today's proceedings?

Agreed.

Mr. PILON: Have we got copies of that letter?

The CHAIRMAN: This has just been presented today and it will be filed and it will be printed as an appendix.

Mr. FRANCIS: I want to observe, Mr. Chairman, that I am pleased to see that this is the case. I just wish that all crown corporations did it in the same way.

Mr. WINCH: It must be one of the largest taxpayers.

Mr. FRANCIS: It is most unfortunate that other crown corporations do not follow the same practice.

Mr. McMILLAN: In connection with the grant in lieu of taxes paid to Sarnia is that in respect of Polymer alone, or is that all—

Mr. STOKES: That is on Polymer Corporation Limited alone.

The CHAIRMAN: Now gentlemen, we are now open for general discussion on the question of the auditing of crown corporations in general and, in particular, the question of crown corporations which have, under the terms of their statute, a private auditing firm and who are not under the auditing inspection of the Auditor General, either jointly or by himself. Included in this discussion, of course, is a question someone raised at the last meeting, with regard to what fees were paid; and that information appears in the document which was tabled today.

Are there any questions on this particular point at this time? If not, have you a comment, Mr. Henderson, that you would like to make?

Mr. HENDERSON: I do not think so, Mr. Chairman. I answered the questions that had been put to me by yourself and by Mr. Fane, and you have here a copy of the answers.

The CHAIRMAN: Yes.

Mr. HENDERSON: I think that would be all that I would have to say on the subject at this point.

Mr. WINCH: I believe that the information contained herein answers, to the best of my recollection, the questions that were asked, and therefore reflect the comments we made ourselves in our recommendations.

The CHAIRMAN: That is quite correct.

I think the answers to the questions are here, and we will be able to make use of it.

There is one question which is probably very remotely related to this and which I propose to ask Mr. Henderson at this time. Mr. Henderson, you have given some indication in the past, but who audits your books, and under what arrangements are your books audited? In other words, who audits the Auditor General?

Mr. HENDERSON: Under section 75 of the Financial Administration Act treasury board appoints an officer of the public service to be the auditor of my office, and his certificate will be found on my accounts in the public accounts. I believe the officer at the present time is Mr. MacDonald, the comptroller of the post office.

The CHAIRMAN: The reason I raise it is the fact that the Auditor General is appointed by the government and is the agent of parliament and answers to parliament; and I have always had in my mind the impression of the desirability of an auditor being appointed by the government rather than by parliament.

I just wanted to raise it, and members might give some consideration to it. We might wish to discuss it and deal with it later, but I thought it might be of interest, because it does, to some extent, in my humble opinion, limit, or could have a limiting effect on, the independence of the Auditor General, and I think this is a thing which should be supreme in our minds, amongst other things—that the position should be one of complete independence.

Mr. WINCH: I think you have a wonderful point there. If the Auditor General is appointed by, and responsible to, parliament then surely the auditing of his own branch should be by someone who is appointed by, or responsible to, parliament.

May I add, Mr. Chairman, that you have now asked a question which I have always wanted to ask, with regard to who examines the examiner.

Mr. McMILLAN: I wonder if there is any way of obtaining the comparative cost of auditing the books of crown corporations ourselves, in relation to those audited by private corporations. I suppose they are paid a much higher rate, are they, than when it is done by the government?

Mr. HENDERSON: The fees are, I would assume, based on the charges which the private firms negotiate with the people who employ them.

As I mentioned last week, it should be borne in mind that these firms are taxpayers, and were I to do the work this would not apply to the same extent.

It is impossible for me to answer your question unless a special study were made.

Mr. FANE: Mr. Chairman, I was just wondering if it would be a better system to have all these crown corporations which are in government business audited by the Auditor General instead of having all these other firms hired to do it. If the Auditor General did all that—was responsible for auditing the accounts of all crown corporations—then the auditing would certainly be uniform and the same kind of records would be kept for all the government business.

I think the Auditor General should be responsible for the auditing of all government business.

The CHAIRMAN: Thank you.

Mr. PRITTE: My view, Mr. Chairman, is much the same. I would imagine that the office of the Auditor General should be exactly the same with regard to government departments and other crown corporations.

An analysis of the excerpt of the Senate report shows that \$250,000 has been paid out in fees.

I would suggest that we cannot go very far into this unless we had some estimate of the Auditor General with regard to what extra personnel he would need in order to do the same work. It would be all right so long as we had the necessary staff to do all the public accounting; but I really do not think we can go very far until we have some comparison to make.

The CHAIRMAN: Are there any other comments?

Mr. HARKNESS: I would take the opposite point of view. A corporation such as Canadian National Railways, which has to run its business the same as the C.P.R., should be in the position of having auditors just the same as any other corporation does; and the same thing, of course, will apply to most of these other corporations which are not audited by the Auditor General.

In other words, it seems to me this is a very reasonable sort of division of the activities in the auditing line.

The CHAIRMAN: Are there any other comments, gentlemen? If not, we will have an opportunity to study these things and the views expressed by members when we come to our final meeting, if the committee wants to discuss it further; and we will have that opportunity.

Mr. McMILLAN: Are there any of these audits which, in your opinion, should be in a different form for us? I mean, are they adapted to your form of auditing, to the type of information you get in your audit?

Mr. HENDERSON: Yes; there are differences between them. However, again, I am unable to answer your question fully because I am not familiar with their accounts.

Mr. McMILLAN: In other words, do you get all the information in those audits?

Mr. HENDERSON: I am not in a position to say, because I am not the auditor.

Mr. LEBLANC: I have two questions I should like to ask the Auditor General. The first is this: Do you have access at times to the working papers of the

private auditors for the various crown corporations for which you are not responsible?

Mr. HENDERSON: No.

Mr. LEBLANC: You do not have access to their working papers; so you do not know exactly what type of audit is being done—how much detail they are doing and what type of work they are actually doing?

Mr. HENDERSON: No; I have made no inquiry, for the reasons I gave at the last meeting.

Mr. LEBLANC: The reason for the question is that I think it would be very difficult for us at the present time, without knowing exactly what type of work they are performing there, to budget for the excess of employees in your department to look after those audits through your own office.

If we are paying out \$250,000 for those various audits one thing we are sure of is that the amounts involved from your own department would be less than that; but I think it is very difficult to say exactly what the amount of saving would be.

Mr. HENDERSON: As I mentioned earlier in response to Dr. McMillan's question, until such a study as you suggest is undertaken it is impossible to be specific on how large the saving might be.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. TARDIF: If you were responsible you would be responsible for any auditors engaged to do any other auditing work besides what you do yourself, would you not?

Mr. HENDERSON: Yes.

The CHAIRMAN: Are there any other comments? If not, could we turn to paragraph 159? We had finished the crown corporations and we had left the departmental operating activities, from paragraph 159 on until the end of the report.

Mr. McMILLAN: That was for 1963?

The CHAIRMAN: That was 1963, Dr. McMillan.

I think we had completed the examination of appendix 1 dealing with non-productive payments, but from paragraph 159 to that appendix we have still to consider the material there. Is that correct, Mr. Henderson?

Mr. HENDERSON: Yes, that is correct. We reached the end of page 122 and we were about to turn to departmental operating activities.

The CHAIRMAN: Paragraphs 159 and 160 follow:

DEPARTMENTAL OPERATING ACTIVITIES

159. Extensive trading or servicing activities are operated by a number of departments, for example:

Agricultural commodities stabilization activities (operated by the agricultural stabilization board under the Department of Agriculture);

Board of Grain Commissioners for Canada (under the Department of Agriculture);

Canadian Government Elevators (operated by the Board of Grain Commissioners under the Department of Agriculture);

National Film Board (reporting through the Secretary of State);

Post Office activities;

Public printing and stationery activities (under the Department of Defence Production);

Royal Canadian Mint (under the Department of Finance); and

Airport operations (under the Department of Transport).

160. Reference has been made in paragraph 128 to the statutory direction contained in the Financial Administration Act regarding the annual financial statements to be prepared by crown corporations. There is, however, no statutory direction regarding the preparation of financial statements in respect of trading or servicing activities operated by departments. Revenues arising from such activities are included in the public accounts as revenues of the departments concerned, while the expenditures that involve cash outlays in the year are recorded as charges against the parliamentary appropriations for those departments. In addition, where statutory revolving funds are used to acquire materials, etc., statements summarizing the transactions in the revolving fund accounts are also included in the public accounts. In the few instances where financial statements showing operating results from departmental trading or servicing activities are included, the costs shown include only the direct costs arising from cash outlays by the departments concerned and do not include non-cash charges for depreciation, interest on capital, services provided by other departments, etc.

Mr. HENDERSON: This section of my report refers to the extensive trading or servicing activities operated by a number of departments, and I give some examples to illustrate. These examples begin at paragraph 161 which follows:

161. *Agricultural commodities stabilization activities.* The agricultural stabilization board was established by the Agricultural Stabilization Act, 1957-58, c. 22, and has the responsibility of stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilizing measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of amounts by which prescribed prices exceed those determined by the board to be the average prices at which commodities are currently being sold, or stabilizing payments for the benefit of producers. Pursuant to the act, the agricultural commodities stabilization account was established in the consolidated revenue fund and finances the activities of the board, except for administrative expenses which are financed through annual parliamentary appropriations.

The results of the board's operations for the year ended March 31, 1963 are summarized as follows in comparison with the corresponding amounts for the preceding year:

	Year ended March 31 1963	1962
Trading losses—		
Butter	\$45,239,000	\$ 2,482,000
Pork	7,528,000	2,017,000
Lamb	31,000	928,000
Cheese	1,025,000	676,000
Other	182,000	116,000
	<hr/> 54,005,000	<hr/> 6,219,000
Stabilization and deficiency payments—		
Milk	13,258,000	12,371,000
Sugar beets	1,983,000	1,670,000
Eggs	663,000	15,000
Wool	956,000	1,236,000
Other	991,000	495,000
	<hr/> 17,851,000	<hr/> 15,787,000
Net operating loss	<hr/> \$71,856,000	<hr/> \$22,006,000

The \$71,856,000 loss shown for 1962-63, recovered by Special Appropriation Act, 1963 (Vote 163) does not include administrative expenses of \$461,000 which were charged to the appropriation for "Agricultural Stabilization Act Administration" (Vote 40). Moreover, no charges are made for accounting services rendered by the office of the comptroller of the treasury or for contributions to the public service superannuation account, and interest on the funds employed is not taken into consideration.

The following is a listing of the inventories, valued at cost, held by the board at March 31, 1963 in comparison with the similar inventories at the close of the preceding year:

	As at March 31	
	1963	1962
Butter	\$ 129,173,000	\$ 112,312,000
Pork	10,072,000	19,383,000
Other	266,000	1,030,000
	<u>\$ 139,511,000</u>	<u>\$ 132,725,000</u>

The inventory of butter owned by the board increased by \$16,861,000 during the year notwithstanding a resale program under which the price of butter was reduced by 12 cents per pound. The cost of this program amounted to \$42,273,000. Storage charges incurred in respect of butter which had accumulated during the years 1958 to 1962 amounted to \$4,442,000 during the year ended March 31, 1963.

As you will see from the examples appearing, some are producing effective accounting statements, others are in the process and others have not yet started to do it.

The first deals with agricultural commodities stabilization activities, and you will notice that there is a summary at the top of page 124 showing the results of the board's operations for the year, on a comparative basis. There is a net operating loss shown there for 1963 in excess of \$71,000,000. However, as pointed out this does not include, administrative expenses which were charged to vote 40, nor have any charges been made for the accounting services, for contributions to the public service superannuation account, or for interest on the funds employed.

It has been my recommendation that the statement should be carried through to the point where all these other cost elements are included in the accounting statement.

The next paragraph, No. 162, outlines the situation surrounding the board of Canadian commissioners, which paragraph follows:

162. *Board of Grain Commissioners for Canada.* This board operates under the authority of the Canada Grain Act, R.S., c. 25, and consists of a chief commissioner and two other commissioners appointed by the governor in council. The board has jurisdiction to enquire into any matter relating to: grading, weighing and storage of grain; unfair or discriminatory operation of any elevator; and any other matter arising out of the performance of the duties of the board.

The following is a comparative summary of the results of operations for the past two fiscal years:

	Year ended March 31	
	1963	1962
Expenditure—		
Salaries, allowances, etc.	\$ 4,253,000	\$ 4,286,000
Rent	188,000	188,000
Travel	122,000	125,000
Printing and stationery	57,000	58,000
General expenses	223,000	228,000
	<hr/> 4,848,000	<hr/> 4,885,000
Revenue—		
Inspection	1,584,000	1,946,000
Weighing	794,000	967,000
Registrations and cancellations	44,000	54,000
Licences	28,000	29,000
Sundry	2,000	5,000
	<hr/> 2,452,000	<hr/> 3,001,000
Excess of expenditure over revenue	\$ 2,396,000	\$ 1,884,000

Although the volume of grains handled during 1962-63 decreased considerably from the previous year, there was no significant decrease in the board's expenditures since a large portion of these are fixed. No charges were included as expenditure of the board for contributions to the public service superannuation account or for accounting and other services provided by government departments.

Revenue from inspections, weighing and registrations and cancellations varies directly with the volume of grain handled and therefore decreased in 1962-63 compared with the previous year. Fees for weighing services have not been revised since 1920 and for inspection services since 1949. In our previous reports reference has been made to this situation and last year it was observed that the standing committee on public accounts recommended in 1961 that "steps be taken to bring revenues and expenditures into balance". 1962-63 was the ninth consecutive year in which deficits exceeded one million dollars.

This paragraph has a summary of the results of the operation on page 125, and you will see that expenditure here has been exceeding revenue for some years, in point of fact were \$2,396,000 in excess at the end of 1963.

This situation has been before the committee, as you know, and in 1961 the committee recommended that steps be taken to bring revenue and expenditure into balance.

I had pointed out that 1962-63 was the ninth consecutive year in which the deficit in this operation had exceeded one million dollars, and we discussed this matter in the summary, and you may recall that in your fourth report, 1964, paragraphs 40 and 41, presented to the house on July 28 last, you took note of the fact that the board of grain commissioners had announced that there would be a 50 per cent increase in their charges to the public, to be made effective August 1, 1965.

That is the status of this matter at this time.

Paragraph 163 deals with Canadian government elevators, and is as follows:

163. *Canadian Government Elevators.* The Canadian government elevators are operated by the board of grain commissioners for Canada under section 166 of the Canada Grain Act, R.S., c. 25. There are five

interior elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton and Lethbridge; and a terminal elevator at Prince Rupert. The terminal elevator, located at Port Arthur, which had been leased to a company engaged in the grain trade was sold during the year to the former lessee (see paragraph 47).

The equity of the crown in the Canadian government elevators at March 31, 1963 was \$10,833,000, represented by fixed assets costing \$10,366,000 acquired out of funds provided by parliamentary appropriations together with a surplus of \$467,000.

The following is a summary of the results of operation for the year under review with the comparable amounts for the preceding year:

	As at March 31	
	1963	1962
Revenue—		
Storage	\$ 822,000	\$ 1,129,000
Elevation	157,000	484,000
Cleaning	36,000	159,000
Drying	11,000	23,000
Other	37,000	196,000
	<hr/> 1,063,000	<hr/> 1,991,000
Expenditure—		
Salaries and wages	785,000	889,000
Maintenance—buildings, plant and equipment	257,000	362,000
Grants in lieu of taxes	112,000	112,000
Power	65,000	98,000
Other	95,000	107,000
	<hr/> 1,314,000	<hr/> 1,568,000
Net profit or (loss)	<hr/> (\$ 251,000)	<hr/> \$ 423,000

The operating revenue arises almost entirely from the handling of wheat and only to a minor extent from the handling of coarse grains. The sale and movement of wheat is the responsibility of the Canadian wheat board and it is to the economic advantage of this board to ship all wheat direct to lakehead or tidewater ports without using facilities of interior elevators since, by so doing, "stop-off" and "diversion" charges are eliminated. When weather conditions at harvest time result in damp wheat and when lakehead and tidewater elevators are filled to capacity, the board uses the drying and storage facilities of interior elevators. The fall of 1962 was exceptionally dry and there was a steady export from lakehead and tidewater terminals so that the facilities of the Canadian government elevators were not required by the Canadian wheat board to the same extent as in 1961. As a result, only 6,252,000 bushels of wheat were handled by the elevators in 1962-63 compared with 25,171,000 in the previous year. This sharp decline in volume of wheat moving through the elevators was largely responsible for the reduction in revenue. In addition, the effective date of the sale of the terminal elevator was August 1, 1962 so that only four months' rental was received in 1962-63.

The decrease in volume of grain handled also resulted in decreased expenditures, chiefly for casual labour, maintenance and power, but did not affect fixed costs such as grants in lieu of taxes and head office expenses. As noted in previous years' reports, expenditures do not include amortization of elevator construction costs, charges for contributions to

the public service superannuation account, or costs of accounting and other services provided by government departments.

A loss of \$72,000 by the Lethbridge elevator was its eighteenth consecutive annual loss. The accumulated deficits during this period amounted to \$690,000.

The details of this paragraph follow on page 126. Here we had a profit in 1962 followed by a loss in 1963, the reasons for which are explained in the paragraph following the table.

I pointed out for the information of the house that the loss of \$72,000 by the Lethbridge elevator was its eighteenth consecutive annual loss, and that their accumulated deficits during that period had amounted to \$690,000.

Paragraph 164 deals with the national film board, and is as follows:

164. *National Film Board.* This board was established in 1939 by the National Film Act, now R.S., c. 185, for the purpose of promoting the production and distribution of films in the national interest. Section 18 of the act provides for the establishment of the national film board operating account in the consolidated revenue fund. The account is credited with amounts provided by annual parliamentary appropriations for "Administration, Production and Distribution of Films and Other Visual Materials" (national film board *Vote 1*), amounts transferred from appropriations of government departments in respect of work undertaken for them, and income arising from the sale and rental of films and other visual materials. The account is charged with all expenditures made by the board, other than those for the acquisition of capital equipment which are charged to a separate appropriation.

The equity of the crown in the board at March 31, 1963 was \$2,343,000 consisting of the balance of \$581,000 in the national film board operating account for working capital together with an investment of \$1,762,000 represented by the depreciated value of equipment transferred to the board at its inception or purchased out of funds provided through parliamentary appropriations, less disposals.

Pursuant to the provisions of the act, the board maintains an accounting system on the accrual basis in addition to the accounts maintained by the comptroller of the treasury on the cash basis. The following is a summary of the results of the board's operations for the year, compared with those of the preceding year:

	Year ended March 31 1963	1962
Expense—		
Production of films and other visual materials ...	\$ 2,975,000	\$ 3,008,000
Distribution of films	2,313,000	2,203,000
Administration and general services	900,000	860,000
Cost of production of films and other visual materials for government departments and others ..	1,557,000	1,247,000
Acquisition of equipment (net)	197,000	172,000
	<hr/> 7,942,000	<hr/> 7,490,000
Income		
Sales of films and other visual materials	1,740,000	1,505,000
Rentals and royalties	585,000	877,000
Miscellaneous	25,000	15,000
	<hr/> 2,350,000	<hr/> 2,397,000
Net expense	<hr/> \$ 5,592,000	<hr/> \$ 5,093,000

As disclosed in a note to the board's financial statements, the statement of income and expense does not include charges for the value of accommodation, contributions to the public service superannuation account and accounting and other services provided by government departments to the extent of approximately \$1,083,000 for the year. Neither does the statement include depreciation on equipment, estimated at \$330,000 for the year under review.

You will see here that the net expenses recorded by the film board in the table for 1963 is \$5,592,000. However, there was a note that the financial statement indicated that the computation did not include charges for the value of accommodation, contributions to the public service superannuation account and accounting and other services provided by government departments, to the extent of approximately \$1,083,000 for the year; nor does this statement include depreciation on equipment, which was estimated at \$330,000 for the year under review.

I am pleased to point out to you that the national film board picked up all those charges in its statement this year. The board included all these items in its statement on operations. Naturally, it has had the effect of increasing their published expense figure, but it reflects its expenses at the comparable level of, for example, private film companies. This has been dealt with in the Board's reports and if members have any questions we have particulars here which will also be found in the annual report of the national film board.

Mr. RYAN: What would be the total expenses if they took these further items into consideration?

Mr. HENDERSON: I will ask Mr. Stokes to give you the answer to that.

Mr. STOKES: In the year ended 31 March, 1963, they would have aggregated \$9,169,878.

Mr. HENDERSON: As compared with \$7,942,000 shown on page 129.

Mr. STOKES: I do not have the figure.

Mr. FANE: To go back to paragraph 163, why does the government elevator at Lethbridge continue to show a loss every year? That is at the bottom of page 126.

The CHAIRMAN: It is the last paragraph on page 126, Mr. Stokes.

Mr. FANE: Why is this the only one that does this?

Mr. STOKES: I think the only explanation is that their revenue does not match their expenditure; it is by that amount that revenue does not match expenditure.

Mr. FANE: They must handle a very great volume of grain there, because that is good grain country.

Mr. HENDERSON: My understanding is that the overhead of this particular operation is greater than exists at any of the other elevators. You will probably know whether that is so, or not.

I do not think it is because they have not been given their proper share of grain handling, but because of the built-in cost.

Mr. FANE: I see; thank you.

Mr. HARKNESS: I do not think that there is too much grain there, either. I think they found that it was a good spot to hold grain which might be needed for fairly rapid forward delivery, and the result is that the elevator has never been made as much use of as other elevators.

The CHAIRMAN: Now we are on the post office, I think, at this time—paragraph 165, which follows:

165. *Post Office activities.* The following is a summary of the post office transactions reported as departmental revenues and as charges against parliamentary appropriations in the post office section of volume II of the public accounts for the year ended March 31, 1963 in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31 1963	1962
Gross postal revenue	\$ 222,300,000	\$ 213,518,000
Less: Expenses paid from revenue	29,528,000	29,839,000
Net postal revenue	192,772,000	183,679,000
Miscellaneous revenue	59,000	61,000
	<u>192,831,000</u>	<u>183,740,000</u>
Deduct: Expenditures from parliamentary appropriations—		
Operations	119,992,000	116,983,000
Transportation	63,935,000	62,719,000
Administration, financial services, etc.	5,417,000	5,301,000
	<u>189,344,000</u>	<u>185,003,000</u>
Excess of revenue over expenditure	\$ 3,487,000	(\$ 1,263,000)

This recorded excess of revenue over expenditure of \$3,487,000 for 1962-63 did not, however, take into consideration charges for services provided by other departments, including accommodation provided by the Department of Public Works estimated at \$23,411,000 or contributions to the superannuation account by the Department of Finance estimated at \$7,274,000. Neither were credits for mail franked by and sent to members of parliament and government departments, estimated at \$5,200,000, taken into account.

Mr. HENDERSON: Paragraph 165 gives the summary of the post office transactions as they are reported in volume II of the public accounts. This is on page 128; and you will see that there is an excess of revenue over expenditure, as shown in this table, of \$3,487,000. However, in the ensuing paragraph I go on to point out that this excess of revenue, or profit, if you want to call it that, did not take into consideration the charges for services provided by other departments, including accommodation provided by the Department of Public Works—that is to say, their rent—which was estimated at \$23,411,000; or contributions to the superannuation account by the Department of Finance estimated at \$7,274,000; and neither were credits for mail franked by and sent to members of parliament and other departments, estimated at \$5,200,000 taken into account.

I am hoping we may be successful in having the post office follow the example of the national film board by picking up such charges in its statements of operations.

Mr. FRANCIS: I think, in fairness to the department, the annual report does call attention to this.

Mr. HENDERSON: Yes; that is right.

Mr. FRANCIS: And an attempt has been made to increase the scale of charges to bring the total costs of operating clearly into line; and I think the minister's statement has been very clear on that.

The CHAIRMAN: Are there any other comments on paragraph 165?

Mr. CARDIFF: I think there should be something said on the amount of mail by members of parliament that is sent out on the frank.

Some members of parliament continually send stuff out. They cannot get enough work for their secretaries to do to keep them busy. They send mail out every day. I think there should be a limit set on the amount of material they can send out.

I do not know how this can be done, but I think something should be done.

Mr. FRANCIS: I wonder if Mr. Cardiff would recognize that this should have some relation to the number of votes in the member's constituency. My colleague, for instance, from north Scarborough, with his 340,000 people, would find that this created a bit of a problem. I have about 170,000 people in my constituency and that does not create just such a problem.

Mr. CARDIFF: But that could be taken into consideration. That is not the answer, of course.

Mr. FRANCIS: But it is part of the problem.

Mr. ROCK: I think there are members who, every week, send possibly to all the electors in their area, newspapers and other publications, which is kind of fantastic so far as expenses are concerned.

Mr. REGAN: Well, I would only point out that in addition to consideration of how many constituents there are there is also the nature of the constituency. There are some members of parliament who, as private members, speak, and because of the nature of their constituency they are thoroughly covered in their local newspaper. There are some who come from cities like Montreal, Vancouver or Winnipeg—or any of the large cities in Canada—where they do not get their names in the newspaper, and surely it is much more necessary for people in areas like that, in the larger constituencies, to know what they are doing by mail, with more publicity of their activities.

I think that it would probably be unwise to try to put a restriction of this type on the frank privilege. After all, in any event, it is being used for the information of the general public, and the saving would be very minimal, if at all, to the post office, since the volume going out from parliament compared to the national volume of mail must be infinitesimal; and you would be in the position where these are spread over an area so that they will be carried there by the mail carrier; and I think you would find that the saving of public money would be very small and not worth the effort of working out a successful formula.

The CHAIRMAN: I do not want to inhibit anybody, but—

Mr. ROCK: I would like to comment to the contrary. I believe that if a member of parliament sends a letter to every member of his constituency once a week then the mailman has his bag full of his mail, period; because very seldom does the mailman have a letter for everybody in the constituency on his round. When a member of parliament every week is sending out a circular letter of some kind then the mail carrier's bag is completely full and he is working more for his member of parliament that one day per week than he is working for the rest of the people.

The CHAIRMAN: I do not want to inhibit any discussion of this fascinating subject which opens up very considerable vistas for us, I am sure, but I think we are getting a little beyond the jurisdiction of the Auditor General just now. I think it will be of interest to read these comments later, but perhaps we could move on to paragraph 166 now, which is as follows:

166. *Public printing and stationery activities.* Under the Public Printing and Stationery Act, R.S., c. 226, the Department of Public Printing and Stationery is charged with the execution of printing, lithographing or work of like nature and the procurement and distribution of paper,

books and other articles of stationery required by the Senate, the House of Commons and the various government departments. The department is also responsible for the sale of all books or publications issued by order of either or both houses of parliament or by any department. The expenditures of the department are provided for through the medium of the queen's printer's advance (a statutory working capital advance) and by annual parliamentary appropriations.

The basic operating expenses of the department are charged to the queen's printer's advance under section 37 of the act. The advance is credited with the value of printing work executed for and charged, at "factory cost", to the various departments, and also for the value of stationery supplied and charged to them at "purchase cost". The act provides that the aggregate amount of the charges to the advance after deducting therefrom any amounts due to the queen's printer shall not exceed \$4 million at any time. As at March 31, 1963 the balance of the advance was \$4,730,000 and the accounts receivable totalled \$2,371,000, so that the effective balance for the purposes of the act was \$2,359,000, being an increase of \$197,000 over the corresponding figure at the end of the preceding year.

The following summary shows the operating results of the queen's printer's advance for the year ended March 31, 1963 together with the comparable figures for the preceding year:

	Year ended March 31 1963	1962
Revenue	\$18,990,000	\$19,543,000
Expenditure—		
Direct materials	11,954,000	11,996,000
Direct labour	3,074,000	2,729,000
Other factory expenses	3,074,000	2,729,000
Work sub-contracted	373,000	338,000
Decrease or (increase) in inventories	(192,000)	248,000
	<u>19,066,000</u>	<u>19,607,000</u>
	76,000	64,000
Discount earned, etc.	9,000	11,000
Excess of expenditure over revenue	<u>\$ 67,000</u>	<u>\$ 53,000</u>

The expenditure shown above does not include the value of services and facilities including light, power, telephone, heating, amortization of buildings and equipment, etc., provided free of charge by other government departments and through the medium of the department's own appropriations.

In addition to the expenditures recorded through the queen's printer's advance, the other expenditures of the department are charged to eight different parliamentary appropriations and totalled \$3,977,000 for the year under review. The following compares these expenditures with those for the preceding year:

	Year ended March 31	
	1963	1962
Departmental administration	\$ 771,000	\$ 751,000
Purchasing, stationery and stores (largely for salaries and wages of procurement and stationery stores personnel and repairs to office equipment)	1,201,000	1,264,000
Distribution of official documents	685,000	597,000
Printing and binding official publications for sale and distribution to departments and the public	1,012,000	938,000
Printing of <i>Canada Gazette</i>	169,000	139,000
Printing and binding the annual Statutes	26,000	35,000
Plant equipment and replacements	106,000	239,000
Reimbursement of the Queen's Printer's Advance for the value of stores which have become obsolete, unserviceable, lost or destroyed	7,000	35,000
	<u>\$ 3,977,000</u>	<u>\$ 3,998,000</u>

For the year ended March 31, 1963 credits to revenue totalled \$1,660,000, most of which resulted from the sales of publications to the general public.

Mr. HENDERSON: Paragraph 166 deals with public printing and stationery activities.

At the top of page 129 you will see a summary of the operating results of the queen's printer's advance, showing an excess of expenditure over revenue of \$67,000, but again I go on to show that the expenditure shown does not include the value of services and facilities including light, power, telephone, heating, amortization of buildings and equipment, and so on, provided by other government departments; and then I show how, in addition to the expenditures recorded through the advance account, the other expenditures of the department are charged to eight different parliamentary appropriations and totalled nearly \$4 million for 1963 which we are reviewing; and you will see the nature of these listed.

What I am asking is that these might be all included together in one statement so as to show a comprehensive picture of what the result of the public printing and stationery activities have been. This does show how they are spread to the different appropriations under the prevailing system.

I do not know whether members have any comments on this.

The CHAIRMAN: I might ask a question: Are you getting any reaction to these suggestions you are making, Mr. Henderson, and what reaction is there from which you draw important conclusions as to the future?

Mr. HENDERSON: I would ask you to look at paragraph 169 on page 132, which is in the following terms:

169. In previous reports we have expressed the view that in order that parliament may gain a clear understanding of the true financial results of departmental operating activities, without necessarily disturbing the present basis of providing appropriations, consideration should be given to the inclusion in the public accounts of financial statements of the various activities designed to reflect the over-all operating results in a clear, concise manner. Such operating statements could be adjusted to the accrual basis and would include charges (on a memorandum basis, in the case of non-cash charges) for amortization of building and equipment costs, interest on funds employed, services provided by other departments, etc. A reconciliation could be prepared between the operating results reflected by each such statement and the cash results indicated by

the related credits to departmental revenues and charges to departmental appropriations. Balance sheets could also be prepared which would indicate the value of the assets employed by the several activities at the year-end. If statements of this type were produced, the audit office would be prepared to examine and certify them.

Paragraph 87 of the fifth report 1961 of the public accounts committee reads:

"The Committee feels that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, such as those of the Department of Public Printing and Stationery and airport operations of the Department of Transport, were overall financial statements included in the Public Accounts without undue cost or staff increases."

We are continuing to follow this matter up with departments having operating activities and to make suggestions regarding the preparation of financial statements along the lines proposed. As was the case last year, reluctance was found on the part of certain agencies to take the lead in preparing statements on the basis recommended, in the absence of encouragement from the treasury board. However, early in the present fiscal year such encouragement was given to at least one of the agencies and it is hoped that the financial statements for 1963-64 will be prepared substantially as recommended.

Here I am summing up. You will see that in 1961 the public accounts committee agreed that it would be desirable if over-all financial statements were included along these lines in the public accounts, provided they could be prepared without undue cost, or staff increases.

The work involved in putting out this type of statement during the year is, to say the least, not particularly onerous.

To answer your question, Mr. Chairman, there is an increasing recognition on the part of government departments engaged in these departmental trading and service activities as to the necessity of having these additional statements prepared, and I think in the public accounts this year there will appear five or six more departments in which they are recording all of their expenses.

In the course of our auditing work we offer our services to the departmental people to assist them in designing and preparing statements like these, not only because their inclusion in public accounts may interest members who can thus secure more information, but so that they themselves can become accustomed to using these statements as a guide and control towards containing their own expenses.

I think there is scope in the government for improving the form of its internal financial statements. This was one of the recommendations of the Glassco commission. I have been pressing for this matter since 1960 and, as I say, we are getting some action; but it is one of those problems that it is not easy to make headway with unless there is strong encouragement given from the top down; that is to say, there must be acceptance by top management of the importance of adequate financial statements, and once that has been done the people at the various levels will produce them.

What we see here is really the progress that has been made over four years in this direction, and I hope that with the added impetus of the Glassco recommendations there will finally emerge more effective accounting statements.

You will notice that paragraph 169 indicates how these operating statements can be prepared, and I go on to say that if statements of this type were

produced we, in the office audit, would be prepared to examine and certify them as we do now for the national film board and some of the others. This, I think, would be a constructive step; and I believe you think the same.

The CHAIRMAN: We still have paragraphs 167 and 168, which are as follows:

167. *Royal Canadian Mint.* The Royal Canadian Mint operates under part II of the Currency, Mint and Exchange Fund Act, R.S., c. 315, and provides "facilities for making coins of the currency of Canada, and for melting, assaying and refining gold".

Revolving fund accounts are maintained for the recording of transactions in gold, silver, and other metals acquired by the mint for the purpose of its operations. The following is a summary of the charges and credits to these accounts during the year under review in comparison with the corresponding amounts for the preceding fiscal year.

	Year ended March 31 1963	1962
Inventories at beginning of year	\$20,655,000	\$13,951,000
Add: Purchases during year—		
Gold	91,020,000	85,607,000
Silver	16,914,000	14,150,000
Other metals	1,408,000	1,823,000
	109,342,000	101,580,000
Gold revaluation	218,000	417,000
	130,215,000	115,948,000
Deduct: Sales—		
Gold sales	91,121,000	87,260,000
Silver coin issues, at face value	15,853,000	11,769,000
Other coin issues, at face value	4,961,000	3,806,000
Silver bullion sales	49,000	48,000
Sundry credits		4,000
	111,984,000	102,887,000
	18,231,000	13,061,000
Add: Transfers to Revenue—		
Gain on coinage operations	8,920,000	7,562,000
Gold refining gain	61,000	32,000
	8,981,000	7,594,000
Inventories at end of year	\$27,212,000	\$20,655,000

The transfers to revenue of \$8,981,000 from the revolving fund accounts, together with other revenue of \$725,000 (\$555,000 in 1961-62), making a total of \$9,706,000 for the year ended March 31, 1963, are recorded in the public accounts as revenue of the Department of Finance. Offset against this were expenditures totalling \$1,830,000 charged to parliamentary appropriations under the Department of Finance as follows: administration, operations and maintenance, \$1,768,000 (\$1,558,000 in 1961-62); and construction or acquisition of equipment, \$62,000 (\$117,000 in 1961-62).

The net result of these credits and charges was an excess of revenue over expenditure of \$7,876,000 compared with \$6,469,000 in 1961-62, an

increase of \$1,407,000. These recorded results do not, however, take into consideration charges for services provided by other departments including accommodation provided by the Department of Public Works, the services of the R.C.M.P. and contributions to the superannuation account by the Department of Finance—nor is any charge included for interest on funds employed.

In paragraph 187 of last year's report reference was made to a reduction from 20 cents per ounce to 11 cents per ounce in the charge paid by depositors who deposit gold with the mint for sale to the crown, to cover the cost of marketing the gold outside of Canada. It was noted that as there had been no reduction in the gold handling charge of 13.8 cents per ounce assessed by the Bank of Canada on gold purchased from the mint, a loss to the mint of \$62,063 had resulted during 1961-62. This situation was corrected with effect from April 1, 1962 by a reduction from 13.8 cents to 11 cents per ounce in the charge made by the Bank of Canada.

168. *Airport operations.* The capital investment of the Department of Transport in airports as at March 31, 1963 was \$579,085,000 compared with \$532,917,000 at the same date in the preceding year, a net increase of \$46,168,000 for the year under review.

The revenue from civil aviation airport operations for the year ended March 31, 1963 amounted to \$15,519,000 compared with \$14,625,000 in the preceding year. The summary which follows gives details of this revenue, together with the comparable amounts for the preceding year:

	Year ended March 31 1963	1962
Aircraft landing fees:		
Domestic	\$ 3,235,000	\$ 3,006,000
Trans-oceanic	3,074,000	2,858,000
Trans-border	753,000	686,000
Other	23,000	30,000
	<hr/> 7,085,000	<hr/> 6,580,000
Rentals:		
Office, shop and garage space	1,239,000	1,322,000
Living quarters	386,000	382,000
Hangar	197,000	181,000
Other	1,077,000	948,000
	<hr/> 2,899,000	<hr/> 2,833,000
Concessions:		
Gasoline and oil	1,881,000	1,693,000
Other	1,824,000	1,516,000
	<hr/> 3,705,000	<hr/> 3,209,000
Miscellaneous revenue	1,830,000	2,003,000
Total revenue	<hr/> \$15,519,000 <hr/>	<hr/> \$14,625,000 <hr/>

The parliamentary appropriation for "Airports and Other Ground Services—Operation and Maintenance" (Transport vote 145) was charged with expenditures totalling \$19,755,000 for 1962-63, a decrease

of \$1,007,000 from the corresponding figure of \$20,762,000 for the preceding year.

The excess of expenditure (excluding new construction) on airways and airports over the revenue received, as reflected in the Department of Transport section of the 1962-63 public accounts, was therefore \$4,236,000, a decrease of \$1,901,000 from the preceding year's figure of \$6,137,000.

The results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined. However, the department has maintained accounts on an accrual basis and has prepared therefrom periodic financial statements for management purposes in respect of operations at the 16 major airports which together account for approximately 82% of the revenue from civil aviation airport operations. A consolidation of these statements, which includes a provision for depreciation of civil aviation facilities (though not for the other costs referred to) for the year ended March 31, 1963 is given as an appendix to the department's section of the public accounts.

Mr. HENDERSON: Paragraph 167 gives the financial information available on the inventory of the Royal Canadian Mint, and paragraph 168 deals with airport operation.

If you will look at the last paragraph of this on page 132 you will see that the Department of Transport is preparing periodic financial statements for management purposes in respect of the operation of 16 major airports which, together, account for approximately 82 per cent of the revenue from civil aviation airport operations. That results in a consolidation of these statements which goes into the public accounts, and I think that is an admirable step forward.

I think it is important to know what individual airports are costing in terms of outgo and income.

Mr. WINCH: Could I ask one question? I agree with the hon. gentleman on this, but I would like to ask this: Do you not think that as the Department of Transport operates a great many airfields outside of major areas there should not be a consolidated report of the operations of all airports operated by the Department of Transport?

Mr. HENDERSON: Yes, I think you are right, Mr. Winch. This is the way they have started and, as I say, I think it is wholly admirable and I hope it will lead to the improvement you are looking for.

Mr. McMILLAN: There was a surplus of about \$1 million at the end of the year in the case of the mint.

Mr. HENDERSON: Yes, that is right.

Mr. McMILLAN: What do you mean by "gold revaluation"?

Mr. HENDERSON: That is an inventory term, I believe.

In what reference do you ask that?

The CHAIRMAN: That is right here, Mr. Henderson.

Mr. HENDERSON: This would I believe, be a revaluation in terms of the stock holdings of their inventory.

This statement shows the inventory at the beginning and the close of the year; and in this connection they take the purchases and deduct the sales, and in this process they have to make some adjustments in the valuation of the stocks.

I would regard this as a routine revaluation. It is not related to the par value of the currency as such.

We now come to paragraph 170 on page 133. It is in the following terms:

170. In addition to the examinations of departmental accounts and the audits of the accounts of crown corporations, already referred to in this report, the following special audits and examinations were made by the audit office during the year, most of them in accordance with specific directions contained in various statutes: Army benevolent fund board, Atlantic development board, the Canada Council, the custodian, exchange fund account, national gallery of Canada, national productivity council, public printing and stationery stores, The Queen Elizabeth II Canadian fund to aid in research on the diseases of children, Royal Canadian Mint stocks, unemployment insurance fund and Yukon territorial government.

Paragraph 170 outlines the special audits and examinations, and it begins in paragraph 171 with the army benevolent fund board:

171. *Army Benevolent Fund Board.* The accounts of this board were examined for the year ended March 31, 1963 pursuant to the requirement of section 11 of the Army Benevolent Fund Act, R.S., c. 10, and the relative report was addressed to the chairman and members of the board, with a copy being provided to the Minister of Veterans Affairs.

During the year, receipts amounted to \$236,000 of which \$224,000 was derived from interest on funds on deposit with the Receiver General of Canada and \$12,000 from interest on Government of Canada bonds. Disbursements totalled \$504,000 consisting of \$426,000 in grants to or on behalf of world war II veterans and \$78,000 for service and administrative expenses. The latter amount was after making deductions for a grant of \$18,000 provided for by an appropriation of the Department of Veterans Affairs and for a fee of \$30,000 from the Canadian army Welfare fund for managing the financial program of that fund.

After absorbing the excess of disbursements over receipts in the amount of \$268,000, the balance at credit of the army benevolent fund at March 31, 1963 was \$6,014,000 represented by \$5,754,000 on deposit with the Receiver General of Canada, \$256,000 invested in Government of Canada bonds and \$4,000 of accountable advances and prepaid expenses.

I am the auditor of the army benevolent fund.

Then we have the Atlantic development board, in paragraph 172:

172. *Atlantic Development Board.* This board was established by the Atlantic Development Board Act, 1962-63, c. 10. Under the provisions of the act, as amended by chapter 5, 1963, the objects of the board are to inquire into and report to the responsible minister upon programs and projects for fostering the economic growth and development of the Atlantic region of Canada, and to consider, report and make recommendations to the Minister concerning programs and projects.

Funds for the board's 1962-63 requirements were provided by an allotment of \$7,000 from finance Vote 50 (Miscellaneous, Minor and Unforeseen Expenses). Expenditures for the period from December 20, 1962 to March 31, 1963 amounted to \$5,032, representing administrative costs.

Section 19 of the Atlantic Development Board Act states:

"The Chairman of the Board shall, within three months after the termination of each fiscal year, transmit to the minister a statement relating to the activities of the board for that fiscal year, including

the financial statements of the board and the Auditor General's report thereon, and the minister shall cause such statement to be laid before parliament within fifteen days after the receipt thereof or, if parliament is not then sitting, on any of the first fifteen days next thereafter that parliament is sitting."

The statement relating to the short initial financial period had not been tabled when Parliament adjourned on August 21, 1963.

The Atlantic development board is a fairly recent board. Under paragraph 173 you will find The Canada Council:

173. *The Canada Council.* The council was established under the Canada Council Act, 1957, c. 3, "to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences".

A report on the audit of the council's accounts for the year ended March 31, 1963 was made to the council and to the Prime Minister, as required by the act.

An endowment fund of \$50 million was established under the act. The return on the investments of the fund is used to meet administrative expenses and other expenditure for purposes of the act, except for capital assistance grants to universities in respect of building construction projects. Permissible expenditures relate to the following in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

The following is a summary of the results of the endowment fund operations for the year ended March 31, 1963, together with comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Surplus at April 1	\$ 273,000	\$ 418,000
Income—interest and dividends	3,011,000	2,955,000
	<hr/> 3,284,000	<hr/> 3,373,000
Expenditure—		
Grants	2,721,000	2,551,000
Canadian national commission for UNESCO	78,000	57,000
Administrative and other expenses	402,000	467,000
Special project—The Canada council train	—	25,000
	<hr/> 3,201,000	<hr/> 3,100,000
Surplus at March 31	<hr/> \$ 83,000	<hr/> \$ 273,000

The Council is required to provide the secretariat for the Canadian National Commission for UNESCO. The salary costs involved for this secretariat were included in prior years under "administrative and other expenses". For 1962-63 these costs, amounting to \$23,000, were included in the above expenditure item of \$78,000 in order to show more accurately the costs of servicing the commission.

A university capital grants fund of \$50 million was established under the act in order that grants could be made to universities and similar

institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants may be paid out of the principal and accumulated income of the fund.

The following is a summary of the university capital grants fund transactions for the year ended March 31, 1963, together with comparable figures for the preceding year:

	Year ended March 31 1963	1962
Balance at April 1	\$30,333,000	\$34,342,000
Add:		
Interest earned on investments	1,521,000	1,620,000
Net profit on disposal of securities	365,000	904,000
	<u>32,219,000</u>	<u>36,866,000</u>
Deduct:		
Authorized grants	6,275,000	6,533,000
Balance at March 31	<u>\$25,944,000</u>	<u>\$30,333,000</u>

The \$25,944,000 balance of the university capital grants fund at March 31, 1963 included \$14,280,000 representing interest earned and profits realized since the inception of the fund. No portion of this accumulated interest and profits had been allocated by the council to the provinces or distributed to the universities at the end of the fiscal year.

In paragraph 92 of its fifth report 1961, the public accounts committee, noting that no allocation of interest and profits had been made, recommended "that the council seek to conclude this matter without further delay". In submitting my follow-up report dated October 30, 1963 to the public accounts committee on the action taken by departments and other agencies in response to recommendations made by the committee in 1961, reference was made to this recommendation. It was stated that in August 1963, following further efforts to resolve the problem presented in the interpretation of subsection (2)(b) of section 17 of the Canada Council Act, the council had reconfirmed a resolution passed at a February 1962 meeting, but which by later resolution was left in abeyance, that the 1956 census be accepted as the basis for distribution of the university capital grants fund, and that "the 'hotch-pot' or trust fund approach be accepted for distribution of the income and profits on this total fund". It was further stated that the council officers had been directed to prepare revised figures based on this approach and to advise member institutions of their entitlement.

While reviewing the follow-up report, the public accounts committee on November 18, 1963 examined this matter with the chairman and members of the Canada council who were in attendance. At this meeting I advised the committee that I had informed the council that our study of the texts of the legal opinions received by the council on the proposed method of allocation and distribution had caused us to question whether the proposed method of distribution would be in accordance with the provisions of the Canada Council Act. The matter remains under review by the committee at the present time.

The council may, under section 20 of the act, acquire money, securities or other property by way of gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms upon which they are made available to the council. In previous years gifts were

comparatively small in amount and unexpended balances were accounted for in the balance sheet of the endowment fund. In February 1963, however, the council accepted the offer of a gift of approximately \$4,250,000 from an anonymous donor to be used to establish a special scholarship fund, the income from which is to provide fellowship and scholarship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions, or other equivalent or similar institutions in Canada. \$1,079,000 of the gift was received prior to March 31, 1963 and payment of the balance is to be extended over the next several years. Because of the size of, and the terms associated with this gift, the council approved of the presentation of a separate balance sheet as at March 31, 1963, designated "Special Funds", accounting for moneys or property received pursuant to section 20 of the act to a total of \$1,099,000.

This was dealt with during the meetings in July so that I do not think any time need be taken on this unless the members have any questions.

The next paragraph, No. 174, outlines the operations of the custodian of enemy property, and is as follows:

174. *The Custodian.* In accordance with regulation 6 of the revised regulations respecting trading with the enemy (1943) as set out in the schedule to the trading with the enemy (Transitional Powers) Act, 1947, c. 24, the Secretary of State is appointed custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him" by virtue of the regulations. The under-secretary of state acts as deputy custodian and the custodian's office is administered by an assistant deputy custodian in Ottawa. A report on the audit of the custodian's accounts for the year ended December 31, 1962 was made to the Secretary of State.

The book value of the assets vested in the custodian, which were valued in accordance with bases explained in an addendum to the statement of assets and liabilities, decreased by \$571,000 to \$4,138,000 at December 31, 1962. A transfer of \$500,000 to the Minister of Finance for the war claims fund, and releases of \$311,000 to former owners or their beneficiaries, offset in part by an appreciation of \$256,000 in the value of remaining vested assets, accounted for the greater part of the decrease.

Under the regulations referred to above, the custodian is authorized to charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2 per cent of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the regulations.

All administration fees and any income received from vested assets which consist of or are converted into cash or government of Canada bonds are credited to the custodian's administration account, from which all expenses of the office are paid. As a result, the custodian has accumulated, from September 2, 1939 to December 31, 1962, a surplus of \$4,468,000—largely invested in government of Canada bonds.

The following is a summary of the income and expense of the custodian for the year ended December 31, 1962 together with the comparable figures for the preceding year:

	Year ended December 31	
	1962	1961
Income—		
Fees on assets released from administration	\$ 23,000	\$ 2,000
Interest on investments and bank deposits	207,000	194,000
Other income	8,000	3,000
	<u>238,000</u>	<u>199,000</u>
Expense—		
Salaries	110,000	106,000
Other expense	8,000	14,000
	<u>118,000</u>	<u>120,000</u>
Surplus for year	\$ <u>120,000</u>	\$ <u>79,000</u>

The fees earned on the transfer to the Minister of Finance and the assets released to former owners, or their beneficiaries, to which previous reference has been made, account for most of the increase of \$21,000 for fees on assets released from administration.

You will see there that it is a decreasing operation in terms of size, but nevertheless it still is responsible for a sizeable amount of assets.

Mr. WINCH: May I ask one question? In your business of auditing the books in this case do you ask any questions as to why, after 19 years, this is still required?

Mr. HENDERSON: Yes; this is asked in the course of the work.

They are still charged with liquidating situations which, as you see, have existed for a long time, and the rate of that liquidation is slow.

Mr. WINCH: I am sorry, I have not put my question in the right way. Have you ever asked why, after 19 years, these matters have not now been completed—or is that not part of your job as Auditor General?

Mr. HENDERSON: Well, let me put it this way, Mr. Winch. We ask when settlement may be expected and the reasons for any long delays. The section here explains the status of the various cases still outstanding. The explanations are readily forthcoming, and if there were anything contained in them which, in my opinion, the house should be told, I would feel it my duty to do so.

Mr. WINCH: You have not reached that position yet?

Mr. HENDERSON: No. I regard this as a normal situation under the circumstances.

Mr. HARKNESS: Who is the custodian?

Mr. HENDERSON: He is presently an officer of the under secretary of state. He has a very small staff. It is a modest operation and well administered. They moved last year into smaller offices.

Mr. WINCH: Can I ask one further question? Is the hon. gentleman in a position to give us some indication as to the amount that is still involved in resettling claims, or adjustments?

Mr. HENDERSON: If you will notice, in the second paragraph of paragraph 174, the book value of the assets listed in the custodian, which were valued in accordance with the bases—that is, the bases explained in the statement—decreased during the year to a figure of \$4,138,000 at December 31, 1962; and that is the book value of assets that remained vested in the custodian.

This is not precisely the book value, in terms of cost as you would associate the term; there are certain things they do not take in; but that is

the value they have placed on it for what you might call administrative control purposes.

Mr. McMILLAN: Has the income of the staff improved with this profit?

Mr. HENDERSON: Yes, I believe it has.

You will see that their income in the year 1962 was \$238,000 and their expenses were \$118,000; so they show a surplus of \$120,000.

Mr. RYAN: Will you tell me what investments the custodian makes?

Mr. HENDERSON: I believe there is information on that in—

Mr. RYAN: I think it is in the second paragraph on page 137.

Mr. HENDERSON: Part of it is explained in the note. He collects interest on deposits and investments lodged with him.

I believe there is a fairly full statement.

The CHAIRMAN: It is largely invested in government of Canada bonds.

Mr. HENDERSON: Yes; they had \$1,800,000 in bonds and \$1,100,000 in cash at December 31, 1962.

Mr. WINCH: And where does the interest go?

Mr. HENDERSON: It goes into the income, again, of the custodian.

Mr. WINCH: Not into the federal treasury?

Mr. HENDERSON: He has two accounts. He has a vested assets account which is the control system, and he has the office administration account; and when the money goes from the office administration account it goes to the consolidated revenue account after payment of his expenses. He operates on the principle you see here.

Paragraph 175 deals with the exchange fund account, and is as follows:

175. *Exchange Fund Account.* The exchange fund account, first established by the Exchange Fund Act, 1935, c. 60, and continued by the Foreign Exchange Control Act, 1946, c. 53 now operates under part III of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The purpose of the account is "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the exchange fund for its financial year ended December 31, 1962 were examined pursuant to the requirement of section 27 of the Currency, Mint and Exchange Fund Act and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to parliament, and in accordance with that requirement, it is now certified that the transactions in connection with the account for the year ended December 31, 1962 have been in accordance with the provisions of the act, and that the records showed truly and clearly the state of the account.

The following is a summary of the transactions in the account for the year ended December 31, 1962 compared with the transactions in the previous financial year:

	Year ended December 31	
	1962	1961
Balance at January 1	\$ 2,162,606,000	\$ 1,929,536,000
Deduct:		
Paid into consolidated revenue fund in respect of earnings	32,606,000	32,536,000
	<hr/>	<hr/>
Add:	2,130,000,000	1,897,000,000
Advances (net) received during the year .	521,000,000	233,000,000
Earnings on investments during the year (to be paid into the consolidated revenue fun)	35,227,000	32,606,000
	<hr/>	<hr/>
Balance at December 31	2,686,227,000	2,162,606,000
	<hr/>	<hr/>
Represented by:		
Canadian dollars	160,000	844,000
United States dollars and securities	1,941,310,000	1,128,605,000
Gold	763,169,000	987,296,000
Suspense account		3,000
	<hr/>	<hr/>
	2,704,639,000	2,116,748,000
Surplus (Deficit)	18,412,000	(45,858,000)
	<hr/>	<hr/>
	\$ 2,686,227,000	\$ 2,162,606,000
	<hr/>	<hr/>

In the year under review the value of the United States dollar increased from \$1.04 11/32 Canadian at December 31, 1961 to \$1.07 23/32 at December 31, 1962 and the deficit of \$45,858,000 at December 31, 1961 was replaced by a surplus of \$18,412,000 at December 31, 1962. This gain of \$64,270,000 resulted from the following:

Net profit on sales of U.S. securities	\$ 2,846,000
Gain on sales of gold	2,095,000
Exchange valuation credits (net)	59,329,000
	<hr/>
	\$64,270,000
	<hr/>

It should be noted that the surplus of \$18,412,000 at December 31, 1962 would have been considerably larger at that date if losses accumulated in the account, and representing a cost of exchange management since its inception, had been written off in the central government accounts. In paragraph 141 of our report to the House of Commons for the fiscal year ended March 31, 1962 we recommended that provision be made for transferring annually to the consolidated revenue fund the realized profits or losses from trading operations and revaluation of holdings of gold and foreign currencies. This recommendation is now repeated.

This was discussed during the summer, and you will recall that it was dealt with by the committee in its sixth report, 1964, which was presented to the House on October 24 last.

Paragraph 176 has to do with the national gallery of Canada and is as follows:

176. *National Gallery of Canada.* The gallery was incorporated under the National Gallery Act. 1913, c. 33, now R.S., c. 186. Its objects and

powers comprise the development, maintenance, care and management of the national gallery, the acquisition of works of art and generally the promotion of the public interest in art in Canada.

Pursuant to section 9 of the National Gallery Act, the gallery's accounts were audited for the year ended March 31, 1963 and a report was addressed to the Secretary of State. A more detailed report to the board of trustees contained our comments and recommendations regarding various administrative weaknesses. Most of these weaknesses had been brought to the attention of the board in previous reports but the steps taken, although resulting in some improvement in 1962-63, for the most part proved to be ineffective. Since the year end, the gallery has added an intermediate administrative officer whose principal responsibility will be the implementation and effective operation of an integrated system of internal control.

The following is a comparative summary of expenditures for the past two years:

	Year ended March 31	
	1963	1962
Administration, operation and maintenance—		
Salaries and wages	\$ 348,000	\$ 328,000
Professional and special services (including security personnel)	155,000	161,000
Other	308,000	365,000
	<hr/> 811,000	<hr/> 854,000
Purchases of works of art	138,000	243,000
Expenditure from trust funds	—	3,000
	<hr/> \$ 949,000	<hr/> \$ 1,100,000

The operating expenses of the national gallery are largely met from annual parliamentary appropriations, with the remainder paid from a special operating account. Funds for the acquisition of works of art are provided through the national gallery purchase account to which are credited moneys appropriated by Parliament for that purpose. Funds from the national gallery special operating account are also used to acquire works of art.

The 1962-63 public accounts record a charge of \$200,000 under *Vote 5* for a payment to the national gallery purchase account for the purpose of acquiring works of art. Of this amount, \$33,000 was not credited to the purchase account until August 1963 following the passing of the Special Appropriation Act 1963, assented to on July 22, and therefore could not be reflected in the gallery's financial statements for the year ended March 31, 1963. This additional amount increased the balance recorded in the purchase account as at March 31, 1963 to \$82,000.

As stated in last year's report, parliamentary control may be weakened by the supplementing of specific appropriations for purchases of works of art by expenditures from the national gallery special operating account, and the crediting of the special operating account with the proceeds from the sale of gallery publications, fees from exhibitions and lectures, and service charges when the costs of producing this revenue are mainly met from the parliamentary appropriation for operating expenses.

I am the auditor of the national gallery of Canada, and there is a comparative summary of its expenditures given for the past two years on page 139. We

have been reporting in some detail to the board of trustees and as you will see in the top paragraph on page 139 we had commented regarding certain administrative weaknesses and drawn them to their attention. The gallery has been seeking to correct these during the past year.

In the last two paragraphs on page 139 you will recognize the points we discussed when we were reviewing the question of Governor General's warrants. I stated how parliamentary control may be weakened by the supplementing of specific appropriations for purchases of works of art by expenditures from the national gallery special operating account, and the crediting of the special operating account with the proceeds from the sale of gallery publications. I think you will recall this discussion.

The CHAIRMAN: I think we might take a break for five minutes at this time. There are numerous committees sitting today and we have had only one reporter. I know that a lot of you have other committees to go to, but I would suggest that we take about a five minute break now, if it meets with your approval.

We only have a comparatively few paragraphs to deal with, and this might be an appropriate time; so we will recess for five or ten minutes.—Recess.

The CHAIRMAN: Well, gentlemen, I think we are all set to wind up, and we will come to order again.

We had finished with paragraph 176, I think. We will now deal with paragraph 177, which is as follows:

177. *National Productivity Council.* This council was established by the National Productivity Council Act, 1960-61, c. 4, with objects of promoting and expediting continuing improvement in productive efficiency in the various aspects of Canadian economic activity. Operations were conducted from a head office in Ottawa and regional offices in Halifax, Quebec, Toronto and Winnipeg.

The Economic Council of Canada Act, 1963, c. 11, enacted on August 2, 1963, provided for the repeal of the National Productivity Council Act and the payment of any amounts standing to the credit of the national productivity council, after the payment of the council's debts and obligations, to the Receiver General of Canada to be held and applied toward the payment of the expenses of the economic council of Canada.

The following is a summary of the income and expenses of the national productivity council for the year ended March 31, 1963:

Income—

Statutory grant	\$ 150,000	
Donations	86,000	
Government's contributions under section 16 of the act	83,000	
Interest	5,000	
		\$ 324,000

Expense—

Salaries and employees' benefits	131,000	
Donations to approved projects	119,000	
Travel	68,000	
Publicity	18,000	
Office equipment and expenses	15,000	
Professional services	14,000	
Other conference and seminar expenses	13,000	
Telephone, telegram, postage and express	13,000	
Rent and accounting services	7,000	
Other	2,000	
		400,000
		(76,000)

Deduct—

Travel and living expenses of council members provided by statutory appropriation (recorded above)	15,000	
Credits for rent and accounting services provided by the Government of Canada (recorded above)	7,000	
		22,000
Excess of expense over income		\$ (54,000)

The statutory grant was received under the provisions of section 15 of the National Productivity Council Act as the second payment authorized under the section, which directed the Minister of Finance to pay to the council, from the consolidated revenue fund, for each of the first three years after the coming into force of the act, the sum of \$150,000 and thereafter such amounts as may have been appropriated by parliament for the purpose.

Section 16 of the act provided that where the council, during the first three years of its existence, acquired by gift, donation or bequest any asset from a person other than Her Majesty, the Minister of Finance should pay out of the consolidated revenue fund, in addition to the amount paid under section 15 in any year, an amount equal to the value of the property so acquired. During the year the council received donations totalling \$86,000, of which \$83,000 was from sources other than Her Majesty and was accordingly matched by contributions by the government. The remaining \$3,000 was received from Her Majesty in right of several provinces and was not eligible for contributions under the provisions of section 16.

Section 19 of the National Productivity Council Act provided as follows:

The chairman of the council shall, within three months after the termination of each fiscal year, submit to the Ministers of Trade and Commerce and of Labour a report of all proceedings under this act for that fiscal year, including the financial statements of the council, and the Auditor General's report thereon, and the Minister of Trade and Commerce shall cause such reports to be laid before parliament within fifteen days after the receipt thereof or, if parliament is not then sitting, on any of the first fifteen days next thereafter that parliament is sitting.

No such report of proceedings under the National Productivity Council Act was tabled in parliament before adjournment on August 2, 1963. We were informed by officers of the council that a report on all proceedings under the act up to August 2, 1963, the date of repeal of the National Productivity Council Act, along with the financial statements and the Auditor General's report for the year ended March 31, 1963, was presented to the Minister of Trade and Commerce on August 2, 1963.

Mr. HENDERSON: As you know, the National Productivity Council has now been merged with the Economic Council of Canada; and, in fact, the reporting will be under the name of the Economic Council of Canada.

Is that correct, Mr. Stokes?

Mr. STOKES: It is a new productivity account, so it is succeeded by the economic council.

Mr. HENDERSON: I do not know if members have any questions on this. This is the first year of this change, and this will be dealt with in the 1964 report.

We now come to paragraph 178 which deals with public printing and stationery stores. It is in the following terms:

178. *Public Printing and Stationery stores.* Section 34(2) of the Public Printing and Stationery Act, R.S., c. 226, requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During 1962-63, as in previous years, such tests were made as were considered necessary to establish that the controls exercised by the department were operating satisfactorily. In addition, we participated in the physical inventory checking by departmental personnel. A report on the examination was made to the Minister of Industry.

At March 31, 1963 the inventories of stationery, printing materials and supplies held by the department totalled \$2,594,000, and compared with the inventories at the end of the previous year as follows:

	As at March 31	
	1963	1962
Stationery supplies	\$ 705,000	\$ 611,000
Typewriter and office machine parts	152,000	152,000
Paper	398,000	351,000
Printing and maintenance supplies	473,000	464,000
Printing units	342,000	362,000
Miscellaneous	72,000	62,000
Work in process	452,000	339,000
	<hr/>	<hr/>
	\$ 2,594,000	\$ 2,351,000

Mr. HENDERSON: As you see, the legislation requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". I report on this examination to the minister responsible—that is, the Minister of Industry.

Mr. WINCH: Did you say "an inventory of supplies"?

Mr. HENDERSON: Yes.

Mr. WINCH: How can you possibly, as Auditor General, examine the inventory of supplies of an operation like the queen's printer?

Mr. HENDERSON: I have asked the same question, Mr. Winch.

What happens is that the inventory is taken by their officers. Our approach is to examine the way in which it is taken, the efficiency of their procedures and generally to satisfy myself that when the inventory is taken proper procedures are being followed, and that it fairly presents the stock at the date of its examination.

I cannot do any more than that, because an auditor is, of course, not technically qualified to take stock in the orthodox service.

Mr. RYAN: Would this not imply that the Auditor General had power to have the proper facilities to check with the—

Mr. HENDERSON: Yes, the wording is broad. You are absolutely right.

We bring to this accepted auditing practices, as I am sure you can imagine.

Mr. RYAN: What is the usual, accepted practice when you have such a situation?

Mr. HENDERSON: It varies between firms. In the first place, it depends on the nature of the inventory. If there are units which are readily countable the auditor might make some test counts.

Mr. RYAN: Are there any spot checks made in your practice?

Mr. HENDERSON: In some of our audits we are able to physically count certain of the stocks where the units lend themselves to it, so to speak, but we are not in a position to say, for example, if we are looking at so many cartons, that the cartons that we are examining really contain what they purport to contain.

Mr. RYAN: Is it feasible or practical to employ some assistance to check this out thoroughly?

Mr. HENDERSON: If we had any reason to feel that this should be done then we would discuss it with the management and introduce such people on to the job.

Mr. RYAN: I take it that at the present time you do not feel there is any such need?

Mr. HENDERSON: Correct.

Mr. WINCH: I think this may be the time either to take a look at, or to ask the Auditor General for his comment on, an aspect that I have been interested in for some time, which is this: In view of your responsibility in auditing and, in a case like this, of having to state as to the correctness of an inventory, or in any aspect of a department like this—have you ever felt, or do you feel now, that you should have a staff personnel whereby you could have a man who could check the inventory on matters of this kind—on a broad aspect, of course?

Mr. HENDERSON: No, I have not considered this necessary thus far in the discharge of my responsibilities; although these are similar to the requirements of the Financial Administration Act concerning my responsibilities in seeing that public stores are properly maintained and accounted for.

We make test checks of the procedure surrounding those, the manner in which the inventories are checked out against the records, that is, the perpetual stock records which the departments or agencies may keep, and we seek to satisfy ourselves that they are being properly maintained. Beyond that we have not gone yet.

Mr. STENSON: Mr. Henderson, there has been an increase of 10 per cent from 1962 to 1963. Is this the average increase each year?

Mr. HENDERSON: That, to me, is about the increase you might expect.

You have to bear in mind that in 1963 there were some new departments involved, as, for example, the department of industry. I think the department of forestry had been started the previous year. I would not regard this as abnormal in a situation like this.

Mr. CARDIFF: I understand that up until recently there was a limit to the amount of stationery that a member could acquire. Now they tell me there is no limit, that they can have any quantity they wish. Is that right?

Mr. HENDERSON: I believe that is so, Mr. Cardiff. I would want to check that, but I believe there was some change made.

You are speaking of the stationery made available to members of the house?

Mr. CARDIFF: Yes.

Mr. HENDERSON: I believe some change was made along those lines.

Mr. RYAN: Mr. Henderson, you note in paragraph 178 that a report on the examination was made to the Minister of Industry. Would that be a privileged report, or would it be possible to have a look at it?

Mr. HENDERSON: I do not believe that is privileged, Mr. Ryan. It is a written report that I make to him, outlining the circumstances surrounding my check of the stock.

You have here the inventory proper which is contained in the report. This is a two or three page letter which I address to the minister when I have completed my work in accordance with this requirement.

I do not believe there would be any objection if members would like it placed on the record.

The CHAIRMAN: Would you like that, Mr. Ryan?

Mr. RYAN: Yes.

The CHAIRMAN: Yes; I think that Mr. Henderson, as Auditor General, with the responsibility which is cast upon him by the statute, would be free to have the document made available to this committee. I think we could have this made available, and, if so, we might make available the information required by Mr. Cardiff's question, and we could include it in our transcript.

Would that be all right, Mr. Cardiff?

Mr. CARDIFF: Yes.

Mr. HENDERSON: Paragraph 179 refers to the Queen Elizabeth II Canadian fund to aid in research on the diseases of children, and is as follows:

179. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, 1959, c. 33, established this fund to assist individuals or organizations to undertake or carry on research into the diseases of children, and the causes, prevention and treatment of such diseases. A board of trustees consisting of a chairman and six other trustees is responsible for the management and administration of the fund. As required by the act, the national research council provides, without charge, such secretarial and other administrative and technical services and facilities as may be required by the board, whose head office is in Ottawa. A report on the audit of the fund's accounts for the year ended March 31, 1963, which contained no qualification, was made to the board and to the Prime Minister as required by the act.

The act provided \$1,000,000 for the fund and also permits the board to accept gifts for its purposes. A summary of the fund's transactions for the year ended March 31, 1963 compared with the preceding year is given below:

	Year ended March 31 1963	1962
Balance at April 1	\$ 1,003,000	\$ 1,058,000
Add:		
Interest on investments	57,000	56,000
Gifts	1,000	1,000
	<hr/> 58,000	<hr/> 57,000
	1,061,000	1,115,000
Deduct:		
Awards approved during year	12,000	112,000
Balance at March 31	<hr/> \$ 1,049,000	<hr/> \$ 1,003,000

Two categories of awards have been approved by the board of trustees, namely, "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children, and range in value from \$3,500 to \$5,000 per annum. During the year under

review two new and one renewal fellowships were approved totalling \$12,000. The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the board of trustees with regard to these appointments provide for payments of \$10,000 per annum for the first three years and \$5,000 for the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the fund. There were no appointments under this category during the year under review. The fund is presently giving support to three appointees of prior years. At March 31, 1963 the outstanding liability of \$95,000 in respect of these appointments was included in the total provision of \$111,000 for awards approved, appearing in the balance sheet of the fund as at that date.

The status of this is outlined in the next page.

Next we come to paragraph 180 which refers to Royal Canadian Mint stocks, as follows:

180. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of the departmental revenue and expenditure and are examined as such. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c. 315 requires that the Auditor General shall "at least once in each year inspect the store of bullion and coin at the Mint". Such an inspection was made at February 28, 1963 and a report thereon was made to the Deputy Minister of Finance. The stocks of bullion and metals at cost, and coin at face value, held by the Mint at February 28, 1963 amounted to \$21,407,000, comprising: gold, \$2,466,000; silver, \$18,420,000; nickel, \$71,000; bronze, \$450,000.

Here again I am sure Mr. Winch, particularly, will be interested in the requirement of section 20 of the Currency, Mint and Exchange Fund Act which requires that the Auditor General shall "—at least one in each year inspect the store of bullion and coin at the mint". We do make such an inspection. We are not qualified to say that the gold bar in fact is all gold, but we bring our best intelligence to bear on the subject and carry out this inspection, and I report on it each year to the deputy minister of finance.

I repeat, again, that we do not hold ourselves out to be technical experts in matters of this kind, but try to bring as much common sense to the job as possible.

Mr. WINCH: Do you count the bars?

Mr. HENDERSON: That is right. But I am saying that, in order to follow your line of thinking, the question arises whether the bars in front of us are gold, or—

Mr. RYAN: Surely there is some method of corroboration.

Mr. HENDERSON: We satisfy ourselves that they maintain a proper check.

Mr. CARDIFF: It would be difficult for you to tell how much brass was in it.

Mr. HENDERSON: This problem could arise.

Mr. WINCH: Do you ever take samples?

Mr. CARDIFF: Do you mean "take samples home"!

Mr. RYAN: What procedure do you use for verification? How do we know they are gold bricks? Surely there will be some evidence as to their genuineness?

Mr. HENDERSON: There is evidence on the books. We have noted the purchases. We can check out the purchases; we check the sales; we reconcile the opening inventory with the closing inventory; and we generally approach it having regard to the security control that exists in the mint.

Beyond that, as I explained—and I think perhaps Mr. Leblanc would confirm this—an auditor is not expected to go.

Mr. RYAN: Does the mint itself make any test?

Mr. HENDERSON: Yes; the mint keeps very accurate records itself.

If we had had any question that this was not so I would have applied a closer check or followed some other technique. We have to be basically satisfied with the adequacy of the security control and the procedures that are followed.

Mr. LEBLANC: Just to clear up this matter, do you ever have complaints of any sort from purchasers of the gold saying that it is not gold, or it is partly gold and partly copper?

Mr. HENDERSON: No, I cannot recall any, Mr. Leblanc.

Mr. LEBLANC: Consequently, we may adduce that actually there is gold there?

Mr. HENDERSON: Yes. Naturally this would alert us to the possibility or the necessity of making closer identification.

Mr. ROCK: Then, this material—the bullion, the gold bars, the nickel and the bronze—which is kept in the Canadian mint store—is this for the purpose of coinage?

Mr. HENDERSON: Yes.

Mr. ROCK: This has nothing to do with the holding of gold bullion for the balance of payments? This would be the Bank of Canada?

Mr. HENDERSON: Yes.

Mr. ROCK: Another type of gold security?

Mr. HENDERSON: Yes.

Mr. ROCK: This is strictly metal for coinage?

Mr. HENDERSON: For manufacturing purposes.

Mr. ROCK: Why do they have \$2,466,000 worth of gold bullion when they have not made any gold coins for years—or, at least, I do not think they have?

Mr. HENDERSON: I would have to check, Mr. Rock, to be precise, but there is a statement at page 11.26 in the public accounts for 1962-63 which gives a complete picture of the coinage and bullion operations, and, in particular, the gold purchase account showing the gold on hand at the commencement of the year, the gold purchased at various rates, and then the gold transferred to the Bank of Canada for the purpose of exchange fund account, and sundry sales, and the stock remaining.

They buy the gold and transfer it over to the Bank of Canada, and it moves in and out, and they retain what they require for the manufacture of coins.

Mr. ROCK: But this is the intriguing point to my friend and myself. Why do they hold it for the minting of coins when, to the best of my knowledge, we do not at any time mint gold coins and have not done so for many years. Why is it not transferred to the Bank of Canada?

Mr. HENDERSON: The stock at the close of the year here, which was 160,000 fine ounces, was approximately the same as at the beginning of the year, and its value, as you see here, is \$2,466,000.

I am sorry I cannot answer you.

Mr. ROCK: Would you, then, assume that it is just the fact that it has not yet been transferred?

Mr. HENDERSON: That could be the case.
I would be happy to find out the precise answer.

Mr. ROCK: We do not mint gold coins.

The CHAIRMAN: We can get the information from the mint.

Mr. ROCK: Could you find out whether they have had a stock of gold bullion for many years of about this amount, or if it has just been obtained in the last year or two for the purpose of possibly coining gold coins for the centennial year, or something like that?

Mr. HENDERSON: The stock, as I mentioned, was almost identical to the quantity held at the first of the year. It may be that they are in the inventory for that purpose, but I think the best thing to do would be for me to furnish this to the committee at the next meeting, and I would like to speak to the mint about it.

Mr. RYAN: Are we to understand that the mint gold is mined in Canada and the mint purchases it and turns it over to the Bank of Canada?

Mr. HENDERSON: Yes; the gold is transferred in and out for the purpose of the exchange fund account. The Bank of Canada purchases it from the mint and the mint purchases it from the producers.

Mr. WINCH: Is it stored in the mint and then is it transferred to the Bank of Canada?

Mr. HENDERSON: I believe the Bank of Canada stores its own gold.

Mr. LOISELLE: I just want to clear up this point. Is the Royal Canadian Mint buying gold for the Bank of Canada, or buying some gold for its stock?

Mr. HENDERSON: My understanding is that the Bank of Canada purchases its gold largely from the mint.

There might be some other sales. Would you like me to check that?

Mr. RYAN: What about dental gold and gold used in other manufacturing ways? Is it also obtained through the Royal Canadian Mint?

Mr. HENDERSON: I cannot answer that, but I will get that information.

Mr. WINCH: An amendment was made to the act about three years ago whereby you can sell gold on the open market.

Mr. HENDERSON: I believe you are allowed to do that.

Mr. WINCH: It was, I believe, three or four years ago.

Mr. LEBLANC: But for industrial purposes.

The CHAIRMAN: We can get a letter on this.

Could we go on to paragraphs 181 and 182?

Mr. HENDERSON: Paragraph 181 deals with the unemployment insurance fund, and is as follows:

181. *Unemployment Insurance Fund.* The Unemployment Insurance Act, 1940, c. 44, whose purpose was to provide for insurance against unemployment and to maintain a national employment service, established this fund as a special account in the consolidated revenue fund to which all contributions for insured employees and their employers and government of Canada contributions equivalent to one-fifth of the total employee-employer contributions, together with interest on investments, were to be credited—and to which benefits and other payments under the Act were to be charged. The fund now operates under the Unemployment Insurance Act, 1955, c. 50 which, like the act it superseded, is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the governor in council.

Particulars of the unemployment insurance administration are given in paragraph 63.

Financial statements showing the state of the fund as at the end of the fiscal year and the operations of the fund during the year are prepared annually by the Unemployment Insurance Commission. In my 1960 report (paragraph 109) I drew attention to the fact that the act did not provide for these financial statements to be audited. The public accounts committee took note of this and in its fifth report 1961 (paragraph 82) recommended that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the act has not yet been amended, the commission has submitted its financial statements for the past two years to the audit office for examination, and the statements for the year ended March 31, 1963, together with my report thereon to the Minister of Labour, are reproduced in the public accounts, volume II, pages 17.16 to 17.18.

The following is a comparative summary of the fund's transactions for the past three years, together with the year-end balances at the credit of the fund:

	1960-61	1961-62	1962-63
Income—			
Contributions from employers and employees	\$275,273,000	\$277,789,000	\$286,430,000
Contributions from Government of Canada	55,055,000	55,558,000	57,286,000
Other income	10,043,000	6,889,000	2,570,000
Less: Loss on sale of securities ...	7,269,000	622,000	
	2,774,000	6,267,000	2,570,000
	<u>333,102,000</u>	<u>339,614,000</u>	<u>346,286,000</u>
Expenditure—			
Benefit payments	513,906,000	454,740,000	403,191,000
Interest on advances	403,000	2,961,000	
	<u>514,309,000</u>	<u>457,701,000</u>	<u>403,191,000</u>
Excess of expenditure over income ...	\$181,207,000	\$118,087,000	\$ 56,905,000
Balance at credit of the fund	<u>\$184,685,000</u>	<u>\$ 66,598,000</u>	<u>\$ 9,693,000</u>

The annual deficits shown above do not include the administrative expenses of the commission which are financed out of the parliamentary appropriations to the commission under the Department of Labour (see paragraph 63). Also not included are: the value of accommodation for the commission's regional and local offices throughout Canada, contributions to the public service superannuation account, accounting services rendered by the comptroller of the treasury and other services provided by government departments, all of which were estimated at \$9,754,000 for the year.

The deficit of \$56,905,000 in 1962-63 was lower than that of the preceding year by \$61,182,000. This substantial reduction for the second successive year is again attributable to fewer benefit payments and shorter benefit periods. The average monthly percentage of the insured population drawing benefit in 1962-63 was 8.1 per cent compared with

9.3 per cent in 1961-62 and 10.7 per cent in 1960-61. Initial benefit claims allowed in 1962-63 numbered 1,292,476 compared with 1,370,738 in 1961-62 and 1,546,414 in 1960-61 and the average number of benefit weeks paid was 13.4 in 1962-63 compared with 14.3 in 1961-62 and 16.4 in 1960-61.

The act provides that amounts in the fund that are not currently required shall be invested by the commission in obligations of, or guaranteed by the government of Canada. Over the years, securities in substantial sums were acquired during the summer months when contributions and other income exceeded benefit payments and were liquidated, as required, during the winter months when the flow of funds was reversed. Up to a point in 1961 the commission's tradings were exclusively in public issues of government of Canada bonds and, to a lesser extent, Canadian National Railways bonds. In the 1962 report (paragraph 200) we referred to a change in policy which has resulted in the takeover by the Department of Finance on September 29, 1961 of the entire portfolio of the fund at its book value of \$240,454,000 in exchange for the discharge of its liability to the Minister of Finance for loans outstanding together with the acquisition in an amount equivalent to the balance, of a special issue of government of Canada non-negotiable bonds redeemable at par subject to 30 days prior notice. The purpose of the takeover had been explained to the House of Commons by the Minister of Finance as being to remove from the bond market the fund's holdings of government securities which, because of their size and the volume of sales and purchases therein, were exerting an unstabilizing influence on the market. We also drew attention last year to the fact that the transfer of the securities at book value had relieved the fund of a loss on their disposal which could have amounted to \$34,486,000 based on their market value at the date they were transferred.

All security transactions of the fund in the year under review were in the special government of Canada issue and thus no losses on sales were incurred.

This has been the subject of recommendations in the fourth report 1964 presented on June 28 last, following up recommendations we made about a year ago, so that I do not think any time is needed on this.

Mr. CARDIFF: I think it is one of the best acts we have in the statute book

Mr. HENDERSON: This committee pointed this out in its report, and this is one of the recommendations that you have made that is awaiting consideration.

The CHAIRMAN: We made strong representations last year.

Mr. CARDIFF: I think it is one of the best acts we have in the statute book and it has become one of the most abused in the statute book.

Mr. HENDERSON: Well, it has departed, as my note points out, from the insurance principles on which it was originally based. Its coverage has got broader and broader. That is the trouble here.

The final paragraph, No. 182, deals with the Yukon territorial government, and is as follows:

182. *Yukon Territorial Government.* The Yukon Act, 1952-53, c. 53, as amended, provides for the appointment by the Governor in Council of a chief executive officer for the territory to be known as the commissioner and for the election of a council composed of seven members. The commissioner in council is empowered by the act to make ordinances for the government of the territory in those fields normally within provincial jurisdiction.

The accounts relating to the receipt and expenditure of territorial funds and of money appropriated by parliament for the territory are subject to examination by the Auditor General of Canada, in accordance with section 26 of the act. There is no requirement, however, for the preparation of annual financial statements, nor for their certification by the Auditor General as the statutory auditor. The Department of Northern Affairs and National Resources has advised that it proposes to recommend amending legislation to this effect. Pending the enactment of such legislation, the commissioner has submitted, for audit examination, the annual financial statements prepared by the territory for publication in its public accounts, and I have agreed to furnish audit certificates with respect to such statements.

The following is a summary of expenditure and revenue of the Yukon territorial government for the year ended March 31, 1963, with comparable amounts for the preceding fiscal year:

	Year ended March 31	
	1963	1962
Expenditure—		
Capital projects	\$ 3,817,000	\$ 1,748,000
Education	1,153,000	951,000
Roads, bridges and public works	961,000	894,000
Yukon Hospital Insurance Service	744,000	813,000
Health and welfare	480,000	404,000
Justice	330,000	—
Municipal and area development	277,000	285,000
Other expenditure	637,000	530,000
	<hr/> 8,399,000	<hr/> 5,625,000
Revenue—		
Federal grants	1,335,000	498,000
Liquor profits	922,000	875,000
Tax revenue	703,000	551,000
Licence revenue	259,000	221,000
Other revenue	197,000	170,000
	<hr/> 3,416,000	<hr/> 2,315,000
Expenditure recoveries:		
Capital projects	\$ 1,730,000	1,214,000
Roads, bridges and public works ...	564,000	575,000
Yukon Hospital Insurance Service .	471,000	421,000
Education	450,000	321,000
Health and welfare	160,000	140,000
Other recoveries	97,000	71,000
	<hr/> 3,472,000	<hr/> 2,742,000
	<hr/> 6,888,000	<hr/> 5,057,000
Excess of expenditure over revenue . .	<hr/> \$ 1,511,000	<hr/> \$ 568,000

The revised agreement between the territory and the federal government covering financial relations and the allocation of functions between the two governments for the five year period commencing April 1, 1962, which was based on the recommendations of the interdepartmental committee on federal-territorial financial relations, includes a provision

that the territory contribute towards the cost of policing and administration of justice. Justice expenditure of \$330,000 for which there was no counterpart in the prior year, resulted from this recommendation.

Loans payable to the federal government at the close of the fiscal year totalled \$5,431,000, an increase of \$3,296,000 from the previous year's total of \$2,135,000. Funds in the amount of \$2,833,000, borrowed by the territory to meet cash requirements for capital expenditure as provided in the revised agreement referred to above, formed the major part of this increase.

* * * *

I would like to record my appreciation to all members of the staff of the audit office for their loyalty and devotion to duty during the past year.

I might direct your attention to the comment in the paragraph at the top of page 145 where I point out that there is no requirement in the Yukon Act for the preparation of annual financial statements nor for the certification by the Auditor General as the statutory auditor. It simply says the Auditor General is the auditor and it stops at that point.

Now, the Yukon territorial government submits its accounts to me and I examine them. However, I took this matter up several years ago with the Minister of Northern Affairs and National Resources, and I asked him if it might be possible, when the Yukon Act was opened, that financial statements could be made a requirement; that is, that the Act could specify the kind of financial statements that the Yukon territories government should issue, because in the absence of any such specification in the act I must perforce accept whatever is tendered.

I think this is an important point if you wish to see comprehensive financial statements. In some of the more recent acts, such as the Expo. 1967 Act—this is a good example—this Act, is very specific in calling for balance sheets and statements of operations and listing the things which, in this case, the joint auditors are to report upon; and this, therefore, means that parliament is going to see the accounts of this corporation reflected in a very clear manner. I hope that this principle will commend itself to you as you consider other legislation, and that there will be a clause which will provide for comprehensive financial statements.

The CHAIRMAN: As a statutory requirement.

Mr. HENDERSON: I am not in any sense meaning this to be a criticism of the present statements of the Yukon territorial government. We have worked this out with them and their statements are today very comprehensive in terms of balance sheets and operating statements which they submit to us each year and which I certify; but both they and ourselves feel that it would be a sensible thing to record this right in the Yukon Act just as in the Financial Administration Act where you have spelled out what it is that the government of Canada has to produce and what I am to certify.

Mr. WINCH: This gives rise to one question: Under the Financial Administration Act is there a responsibility to submit all these financial reports to the House of Commons?

Mr. HENDERSON: That is right.

Mr. WINCH: On the broad principle, then, should the House of Commons not have been receiving statements from the Northwest Territories or the Yukon?

Mr. HENDERSON: The House of Commons does receive the statements of the Yukon territorial government, but because the act is silent as to the type of

financial statements it can be said to handicap, or it could handicap, the information that the house is going to get.

Mr. WINCH: Do you not have authority under the Financial Administration Act?

Mr. HENDERSON: It is clear so far as crown corporations are concerned. So far as crown corporations are concerned it is defined in the Financial Administration Act; but you are considering here what I describe as some of the special audits and examinations, and the accounts of the Yukon territorial government are in a different or special class. They are tabled in the house, but they do not fall into the class of a government department or of a crown corporation.

Mr. RYAN: I should think it would be well to bring the Yukon territorial government status into line with the other crown corporations.

I suppose there is another situation with respect to the Northwest Territories?

Mr. HENDERSON: At the present time they function as a part of the Department of Northern Affairs and National Resources.

Mr. WINCH: It does not have a similar set-up at all?

Mr. HENDERSON: No.

The CHAIRMAN: Well, gentlemen, I am very happy to say that this completes, for the first time in some years, a complete examination of the Auditor General's report.

Mr. WINCH: Could I also add that this is the first time that we have completely dealt with two reports in one session.

The CHAIRMAN: Yes, I think you are right, Mr. Winch; and while we will be meeting again in camera I want to extend my thanks to all members of the committee for their assiduous attendance so that this has been made possible. I think we will have something to say about this on another occasion.

Let me also say that we will be meeting once more for an in camera meeting to discuss the three reports, one by Mr. Ryan's subcommittee, the report of Mr. Tardif and the main committee report; and, if time will permit, we hope and request that the members of the committee can possibly discuss one or two extra-curricular matters dealing with the national harbours board and the St. Lawrence seaway. This, however, will be in addition to and not really part of the examination of the 1963 report.

With that, I want to thank you all and Mr. Henderson and his staff, and I hope we will meet so that this can be all wound up, and we will have three reports to present to the house at the same time.

Thank you, gentlemen.

APPENDIX 1

PUBLIC ACCOUNTS COMMITTEE 1964

Extract from Debates of the Senate—Monday, December 17, 1962—pages 450-1. To be included in the Minutes of Proceedings and Evidence of the Public Accounts Committee on November 17, 1964.

CROWN COMPANIES

AUDITING OF ACCOUNTS

Hon. A. Neil McLean inquired of the Government pursuant to notice:

- (a) What Crown companies in Canada have their accounts audited by the Auditor General of Canada?
- (b) What Crown companies in Canada do not have their accounts audited by the Auditor General of Canada?
- (c) What are the names of the auditors or auditing firms auditing the accounts of Crown companies in Canada and what is the amount per annum paid to each of them by the respective Crown companies and/or the Government of Canada?

Hon. A. J. BROOKS: The answer to the honourable gentleman's inquiry is as follows:

(a) Atomic Energy of Canada Limited, Canadian Arsenal Limited, Canadian Broadcasting Corporation, Canadian Commercial Corporation, Canadian National (West Indies) Steamships Limited, Canadian Overseas Telecommunication Corporation, Canadian Patents and Developments Limited, Cornwall International Bridge Company Limited, Crown Assets Disposal Corporation, Defence Construction (1951) Limited, Eldorado Aviation Limited, Eldorado Mining and Refining Limited, Export Credits Insurance Corporation, Farm Credit Corporation, The National Battlefields Commission, National Capital Commission, National Harbours Board, Northern Canada Power Commission, Northern Ontario Pipe Line Crown Corporation, Northern Transportation Company Limited, Park Steamship Company Limited, Polymer Corporation Limited and subsidiary companies, The St. Lawrence Seaway Authority.

(b) (1) Canadian National Railways, The Canadian National Railways Securities Trust, Central Mortgage and Housing Corporation, Trans-Canada Air Lines.

(2) The following public instrumentalities, not classed as Crown Corporations under the Financial Administration Act, are also not audited by the Auditor General: Bank of Canada, The Canadian Wheat Board, Industrial Development Bank.

(c) (1) The Canadian National Railway Company (including Canadian National Railways Securities Trust) and Trans-Canada Air Lines are audited by J. A. de Lalanne, C.A., Montreal, P.Q. A fee of \$100,000 plus certain disbursements for the year 1961, paid by the Railway Company and apportioned as follows: Canadian National Railways, \$85,000; Trans-Canada Air Lines, \$15,000.

(2) Pursuant to the Central Mortgage and Housing Corporation Act, the Minister, with the approval of the Governor in Council is required to appoint two auditors to hold office for a term not exceeding two years, to audit the affairs of Central Mortgage and Housing Corporation.

The present auditors of Central Mortgage and Housing Corporation are Mr. Maurice Boulanger, C.A., and Mr. Arthur A. Crawley, F.C.A., of the firms Boulanger, Fortie, Rondeau & Cie, Quebec City, and Arthur A. Crawley & Co., Ottawa. The present per annum fee is \$14,500 each plus travel expenses.

(3) The Canadian Wheat Board has its accounts audited by the firm Miller, MacDonald and Co., Chartered Accountants, Winnipeg, Manitoba. The amount paid by the Board is approximately \$46,000 per annum.

(4) The Bank of Canada auditors are W. R. Kay, C.A., and J. H. Rene de Cotret, C.A. Auditor's fees and expenses for 1961 were \$75,000. (See Bank of Canada Annual Report for 1961).

(5) Industrial Development Bank auditors are W. R. Kay, C.A., and J. H. Rene de Cotret, C.A. Auditor's fees and expenses for 1961 were \$14,686. (See Industrial Development Bank Annual Report for 1961).

APPENDIX 2

EXTERNAL AID OFFICE

OTTAWA, November 6, 1964.

Mr. A. B. Stokes,
Audit Director,
Office of the Auditor General,
Ottawa.

Dear Mr. Stokes:

In your letter of November 2 you forwarded a copy of the minutes of proceedings of the Standing Committee on Public Accounts on Thursday, October 22, and asked whether information could be supplied on the two questions raised, one by Mr. McLean and the other by Dr. McMillan.

As for the latter, the counterpart fund system has been in effect since the inauguration of the Colombo Plan in 1951. As you know, such funds are generated only in the case of consumer items such as foodstuffs and base metals.

A brief answer to Mr. McLean is less easy, because the terms of loans offered by donor countries vary so greatly, not only between the various developing countries but also on loans extended to one particular country. For example, the interest rate charged on a loan to finance a revenue producing project will normally be higher than the interest rate on a loan intended to finance a road or a sewerage system. Also, different countries have various methods of calculating the interest rate. The British, for example, on some loans will strike the interest rate at 5½ percent but will include a waiver period on interest of perhaps ten years, which frequently has the effect of reducing the effective interest rate to about 3 percent. In the case of the United States, they have a sliding scale of interest rates and maturity periods which are determined by the nature of the project and by the economic position of the receiving country.

Insofar as Canada is concerned, there are two types of loans for the developing countries. One is our new "soft" loan program which, if approved by Parliament, will offer money on the same terms as the International Development Association. This type of loan is a part of the Canadian aid program and will be administered by the External Aid Office.

The other type of loan is under Section 21A of the Export Credit Insurance Act and is designed to enable Canadian producers of capital equipment to offer terms comparable with those being offered by the producers of similar equipment in other advanced countries. The interest charged is the rate at which the Canadian Government borrows money plus a service charge of ½ of 1 percent, which usually results in an interest rate of about 6 percent. The maturity periods vary from 8 to 20 years, depending on the nature of the project. Because they are in a sense commercial transactions and are administered in a different way than our aid funds, these monies are not a responsibility of the External Aid Office. Nevertheless, they do have an aid element in them because the long maturity period enables developing countries to obtain equipment which they would not be in a position to acquire on straight commercial terms. For this reason international forums such as the Development Assistance Committee permit advances on loans with a maturity in excess of five years to be registered as part of a country's aid effort.

You will see, therefore, that the procedures are so varied and complicated that Mr. McLean's question does not permit a simple answer. If any useful purpose would be served I would be quite prepared to appear before the Committee in an attempt to answer any questions members might wish to ask about the various procedures followed by the donor countries, including Canada.

Yours sincerely,

(Sgd) H. O. MORAN,

Director General.

HOUSE OF COMMONS

Second Session—Twenty-Sixth Parliament

1964

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

PROCEEDINGS

No. 28

Public Accounts, Volumes I, II and III (1962 and 1963)
Reports of the Auditor General to the House of Commons
1962 and 1963

WEDNESDAY, DECEMBER 2, 1964

INCLUDING SEVENTH AND EIGHTH REPORTS
TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice Chairman: Mr. P. Tardif

and Messrs.

Berger,	Gray,	Pilon,
Cameron (<i>High Park</i>),	Grégoire,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>),	Rock,
Crouse,	Leblanc,	Rondeau,
Danforth,	Legault,	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	*Southam,
Fane,	Mandziuk,	Stefanson,
Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Grafftey,	Pigeon,	Winch—50.

M. Slack,
Clerk of the Committee.

*Replaced by Mr. Girouard on November 18, 1964.

ORDER OF REFERENCE

WEDNESDAY, November 18, 1964.

Ordered,—That the name of Mr. Girouard be substituted for that of Mr. Southam on the Standing Committee on Public Accounts.

Attest.

LÉON J. RAYMOND,
The Clerk of the House.

REPORTS TO THE HOUSE

MONDAY, December 7, 1964.

The Standing Committee on Public Accounts has the honour to present its

SEVENTH REPORT

1. By resolution of July 23, 1964, your Committee appointed a subcommittee on Surplus Assets Disposal for the purpose of reviewing in greater detail the report made on July 9, 1964 by the Auditor General to this Committee at its request relating to the sale of new and usable surplus materials of the Department of National Defence by Crown Assets Disposal Corporation during the fiscal year 1962-63.

2. The subcommittee consisted of the following members under the chairmanship of Mr. Tardif: Messrs. Hales, Winch, Côté (*Chicoutimi*) and Francis.

3. In requesting the Auditor General to assist in the review, the subcommittee suggested that steps be taken to engage the services of outside accountants either by means of separate engagement or by the process of secondment from other government departments and agencies. The latter method was followed and your Committee is indebted to the Canadian Broadcasting Corporation for its assistance in making the services of Mr. A. A. Rudy and other staff members available to carry out the work required under the direction of Mr. H. E. Hayes of the Office of the Auditor General.

4. The subcommittee held a number of meetings in the course of which it was assisted in its deliberations by the aforementioned individuals and by Mr. G. Y. Loughhead, Superintendent of Finance, Mr. J. A. Kidd, Chief Auditor and Mr. A. T. Smith, Superintendent of General Requirements, all of the Department of National Defence, to whom it wishes to express its appreciation for assistance rendered.

5. The members of the subcommittee were concerned at the large quantities of materials becoming surplus and with the relatively small percentage recovered from their sale as evidenced by the report made by the Auditor General to your Committee on July 9, 1964 which contained an analysis of materials with a cost valuation of \$35.6 million of new and usable surplus material declarations received by Crown Assets Disposal Corporation during the fiscal year 1962-63. This report indicated that the amount realized by the Crown from this \$29 million of materials was \$715,106.

6. Messrs. Hayes and Rudy were requested to select between 50 and 75 of the 212 surplus declarations reported on by the Auditor General on July 9, 1964 and subject them to an examination in depth from the standpoint of the Department of National Defence and also Crown Assets Disposal Corporation with the objective of making an assessment of:

- (1) the procurement operation of the Department of National Defence;
- (2) how expeditiously items were declared surplus;
- (3) Crown Assets Disposal Corporation's sales techniques, and whether the best price was obtained for the items sold.

7. In a joint report addressed to the subcommittee under date of September 24, 1964, Messrs. Hayes and Rudy detailed the results of their examination. A copy of this report was filed as an Exhibit.

8. The principal points brought out by this examination may be summarized as follows:

The Department of National Defence only maintains physical inventory quantities. The related costs of materials, supplies and equipment stored at supply depots, repair and overhaul contractors' establishments are not available. Nor are there reports available which would indicate: the cost of storing and handling such items; the related costs of accelerated depreciation, obsolescence and spoilage; and the cost of money invested in such inventories.

No evidence was found to indicate that Crown Assets Disposal Corporation conducted technical market studies to determine approximate fair prices for use as standards to assess the reasonableness of bids received or on which to base reserve bids. Nor are there any formal procedures for the guidance of personnel responsible for the inspection and valuation of items declared surplus. Inspection reports do not indicate the amount of market research that has been undertaken, or the alternative sales methods considered and the reasons for the selection of the method used.

In a number of cases Crown Assets Disposal Corporation had reclassified new and usable materials declared surplus by the Department of National Defence as scrap. The amounts involved had been included in the value of \$35.6 million reported upon by the Auditor General, yet had they been classified as scrap in the first instance no value would have been placed upon them. Examples of these are the Orenda engines with a declared value of \$1,827,000, and the Browning machine guns with a declared value of \$133,791.

An analysis of the nature of the items investigated revealed that many were of a specialized nature specifically designed to support combat forces in World War II, the Korean action, the mobilization reserves—which have since been discontinued on the changeover to the "forces in being" concept—and to maintain the effectiveness of our armed forces in peacetime.

The value of the items declared surplus by the Department of National Defence does not in all cases reflect the original cost to the Department.

The Department of National Defence (in common with other departments) makes no provision in its accounting records for depreciation or obsolescence chargeable as a cost to national defence nor are such costs reflected or detailed in the estimates. In the absence of such a provision, which would reduce inventory valuations in accordance with sound accounting principles, the valuation placed on equipment, stores items and on residual inventories declared surplus are frequently unrealistic.

9. The subcommittee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all of the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots, repair and overhaul contractors' establishments, is not available. In accordance with sound business practice it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

10. While the subcommittee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the subcommittee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of \$1,646 million annually, of which \$421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the subcommittee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The subcommittee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

11. The subcommittee submitted the following recommendations:

- (1) that every effort be made by the executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department;
- (2) that effective with the fiscal year 1964-65 the Department of National Defence issue a statement listing or summarizing all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal of this equipment by Crown Assets Disposal Corporation; also the value obtained for other surplus material, etc., declared without value to the Corporation, and that such a statement be placed in the Public Accounts of Canada;
- (3) that the preparation of a statement similar to the foregoing be made a requirement for each department and agency of the Government declaring material surplus for the purpose of disposing of such material during each fiscal year and that such statements likewise be placed in the Public Accounts of Canada effective with the fiscal year 1964-65;
- (4) that the sales and inspection procedures of Crown Assets Disposal Corporation be revised with a view to improving sales techniques.

12. Your Committee carefully considered the report of its subcommittee on Surplus Assets Disposal and concurs in its findings and recommendations.

A copy of the relevant Committee proceedings (No. 28) is appended.

Respectfully submitted,

The Standing Committee on Public Accounts has the honour to present its

EIGHTH REPORT

1. The following report covers the work of your Committee from October 15, 1964 up to and including November 17, 1964 on which date it completed its examination of the Report of the Auditor General to the House of Commons for the year ended March 31, 1963.

2. During the aforementioned period your Committee held eight meetings in the course of which there were in attendance:

From the Department of Veterans Affairs—

Mr. Paul Pelletier, Deputy Minister

Dr. J. N. B. Crawford, Assistant Deputy Minister and Director General, Treatment Services

From the Department of National Health and Welfare—

Dr. G. D. W. Cameron, Deputy Minister of National Health

From the Canadian Pension Commission—

Mr. T. D. Anderson, Chairman

From the War Veterans Allowance Board—

Colonel W. T. Cromb, Chairman

From the Department of National Revenue—

Mr. David Sim, Deputy Minister, Customs and Excise

Mr. R. C. Labarge, Assistant Deputy Minister

Mr. J. G. Howell, Assistant Deputy Minister

Mr. A. R. Hind, Assistant Deputy Minister

From the Office of the Chief Electoral Officer—

Mr. Nelson J. Castonguay, Representation Commissioner and Acting Chief Electoral Officer

From the Office of the Auditor General of Canada—

Mr. A. M. Henderson, Auditor General

Mr. George Long, Acting Assistant Auditor General

Mr. A. B. Stokes, Audit Director

Mr. D. A. Smith, Audit Director

Mr. J. R. Douglas, Audit Director

Mr. H. G. Crowley, Audit Director

Mr. S. E. Chapman, Audit Director

Mr. F. A. Dixon

3. In concluding its examination of the Reports of the Auditor General for the fiscal years ending March 31, 1962 and 1963, your Committee invited the aforementioned witnesses to discuss a number of the matters contained therein relating to their particular responsibilities, and its report thereon is as follows.

Veterans' hospitals and institutions

4. In both his 1962 and 1963 Reports, the Auditor General drew attention to the rise in operating costs of veterans' hospitals and institutions over the past several years while at the same time the number of pensionable disability cases being cared for in these hospitals had declined. It was pointed out that although these hospital facilities were originally established to treat war service disability cases, today they are increasingly occupied by domiciliary

care cases (41% in 1962-63) and war veterans allowances recipients (22% in 1962-63) who for the most part are insured under provincial hospital insurance plans. The Committee noted that the annual cost of these facilities is presently to the order of \$54 million compared with \$34,500,000 in 1956-57.

The Committee discussed this subject with the Deputy Minister of Veterans Affairs at some length. The Deputy Minister explained many factors covering the administration and continued operation of these institutions and outlined the Department's policy in relation thereto, including the steps being taken aimed toward a gradual disposal of the facilities, always providing suitable alternative arrangements can be made for the treatment of veterans suffering from war service disabilities.

Your Committee expresses its general agreement with the practices being followed by the Department in seeking a solution to this problem.

Employment of part-time doctors by Department of Veterans Affairs

5. The Deputy Minister of Veterans Affairs and the Assistant Deputy Minister and Director General of Treatment Services outlined the manner in which part-time doctors are employed by the Department on a negotiated fee basis which permits the doctors at the same time to collect charges from paying patients in the veterans' hospitals. The Committee noted the Auditor General's view that such charges constitute public funds and therefore should be handled in accordance with the requirements of the Financial Administration Act.

The Committee noted that following a meeting between the Department and Treasury Board in June 1963, an Order in Council had been issued allowing part-time doctors to charge paying patients and authorizing them to continue to be paid on the basis of a fee for each half day of attendance or the equivalent thereof. In point of fact, the Department has never paid these doctors on the basis of actual time worked but uses the authority provided in the Order in Council largely as a convenient administrative device by which payments to different doctors could be varied to the degree their services are required in the hospitals. The Director General of Treatment Services agreed that whereas this provided the degree of administrative flexibility desirable from the standpoint of the Department's senior medical officers, it was not compatible with the basis of payment outlined in the Order.

Your Committee is of the opinion that the executive order should be amended and reworded so as to recognize and deal with the actual operating conditions as they exist and function in the hospitals, and recommends that the Department review the matter further with the Treasury Board with a view to giving effect to such an amendment at an early date.

Hospital construction grants

6. In the course of its consideration of the problems of financial control over hospital construction grants, the Committee was assisted by the Deputy Minister of National Health.

The Committee shares the opinion of the Deputy Minister of National Health and the Auditor General that, since it is inherent in the Hospital Construction Program that commitments be entered into for future years as well as the current year, the financing of the program be placed on a period-of-years basis with parliamentary control being exercised over the total commitments that may be entered into.

Improper authorization of use of a government-owned automobile

7. The Deputy Minister of National Health explained that the private use of a government-owned automobile by an employee, for four months, without

proper authorization resulted from an administrative failure. The Committee was pleased to learn that the Department has taken appropriate corrective action as outlined in the Deputy Minister's letter to the Auditor General of June 15, 1964, which is printed as an appendix to the Minutes of Proceedings of the Committee for October 22, 1964.

Awards under the Pension Act

8. The Committee noted the comments made by the Auditor General in his 1962 and 1963 Reports to the House concerning awards under the Pension Act and invited the Chairman of the Canadian Pension Commission to discuss them.

The Committee was greatly assisted in its consideration of this matter by the explanations furnished by the Chairman and submits the following recommendations designed to clarify the Act, as follows:

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40(2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;
- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
- (e) that, having regard for section 40(1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45(2) of the Act.

War Veterans Allowances

9. The Committee considered with the Chairman of the War Veterans Allowance Board the comments made by the Auditor General in his 1962 and 1963 Reports to the House relating to war veterans allowances.

The Committee noted that action was taken by the Board only in a limited number of cases to enforce the provisions of the Act and its regulations relating to penalties or imprisonment or both for the making of false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of the award. Although overpayments of

allowances arising chiefly from concealment of income or personal assets have not been large in relation to the total amounts of veterans allowances administered and paid by the Board, a number of the cases considered by the Committee suggest the need for more effective prosecutions with heavier penalties in those cases involving deliberate deceptions.

The Committee therefore makes the following recommendations:

- (a) the Committee, after taking note of the increasing number of over-payments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

Amendments to the Customs Act and the Excise Tax Act

10. The Committee considered references made by the Auditor General in his 1962 Report to certain practices followed by the Customs and Excise Division of the Department of National Revenue which are not in accordance with the specific provisions of the Customs Act. These related to the release of goods under Customs Collector's permission, sales of goods unclaimed at Customs, duties and taxes on surplus United States Government property sold in Canada, and the determination of 'sale price' for sales tax purposes.

The Committee recognizes that the practices followed by the Department are sensible and practicable and do not result in any loss of revenue to the Crown. It was assisted in its deliberations by the Deputy Minister of National Revenue for Customs and Excise who explained the underlying reasons for the practices being followed while at the same time recording his agreement that the practices should receive statutory sanction.

The Committee therefore wishes to make the following recommendations:

- (a) Release of goods under Customs Collector's permission—that the practice of the Department in releasing goods prior to the passing of a Customs entry and payment of duty be given statutory sanction by means of appropriate amendments made to sections 22 and 79 of the Customs Act.
- (b) Sales of goods unclaimed at Customs—that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.
- (c) Duties and taxes on surplus United States Government property sold in Canada—that an amendment be made to the Customs Act or to the Customs Tariff Act to provide statutory authority for the establishment of a composite rate to be applied to the proceeds of all

sales in Canada of United States Government property by Crown Assets Disposal Corporation.

- (d) Determination of 'sale price' for sales tax purposes—that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

General election expenditures

11. In the course of considering the comments of the Auditor General on general election expenditures contained in his 1963 Report, the Committee discussed various of the financial aspects of the administration of the last two general elections with the Acting Chief Electoral Officer.

Your Committee took note of the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

Your Committee wishes to record its support of this recommendation by the Chief Electoral Officer and expresses the hope that the amendment will be considered by Parliament at an early date.

Accounts not examined by the Auditor General

12. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House.

Your Committee believes that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

Your Committee therefore recommends:

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
- (b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the government acting on the advice of the Auditor General.

Audit of the Office of the Auditor General

13. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommends that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 20 to 28 inclusive*) is appended.

Respectfully submitted,

G. W. BALDWIN,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, December 2, 1964.

(42)

The Standing Committee on Public Accounts met this day, *in camera*, at 9.40 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Fane, Harkness, Leblanc, Legault, Mandziuk, Muir (*Lisgar*), O'Keefe, Pilon, Rinfret, Rock, Ryan, Stefanson, Tardif, Tucker, Wahn—(17).

The Chairman tabled a letter from the Deputy Minister of Veterans Affairs dated November 24, 1964, enclosing orders in council relating to hospitalization of veterans; this letter was ordered printed as an Appendix to the record of this day. (*See Appendix 1*). (*Orders in Council identified as Exhibit 3*).

Mr. Baldwin then tabled a return from the Auditor General, dated December 1, 1964, replying to questions raised at sitting of November 17th concerning the Royal Canadian Mint; this letter was ordered printed as an Appendix to the record of this day. (*See Appendix 2*).

Also tabled was a report of the Auditor General to the Minister of Industry on the examination of the stock of stationery, printing materials and supplies. (*Identified as Exhibit 4*).

A "draft" report was presented by the subcommittee on Form and Content of Public Accounts, and after discussion, it was agreed to adjourn further consideration in order to hear later the Comptroller of the Treasury.

The Committee then considered a "draft" report presented by the subcommittee on Surplus Assets Disposal, and following its consideration was adopted, and the Chairman ordered to present it to the House as the Committee's Seventh Report.

The Chairman tabled a report which was submitted to the subcommittee on Surplus Assets Disposal by Messrs. H. E. Hayes of the Auditor General's office and A. A. Rudy, dated September 24, 1964. (*Identified as Exhibit 5*).

The Committee then considered its "draft" main report and following its consideration was adopted, and the Chairman ordered to present it to the House as the Committee's Eighth Report.

At 11.05 a.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

APPENDIX 1

DEPUTY MINISTER OF VETERANS AFFAIRS

OTTAWA, November 24, 1964.

G. W. Baldwin, Esq., M.P.,
Chairman,
Standing Committee on Public Accounts,
House of Commons,
Ottawa.

Dear Mr. Baldwin,

As you will recall, Dr. J. N. Crawford, Director-General of Treatment Services, and the undersigned, appeared as witnesses, on October 20th of this year, before your Standing Committee on Public Accounts while the latter was considering certain observations made by the Auditor-General in his latest two reports, more particularly paragraph 104 of his report for 1961-62 and paragraph 90 of his report for 1962-63, in which Mr. Henderson suggested that a re-appraisal of the role of the Department of Veterans Affairs in the operation of hospitals would be desirable. At your suggestion, it was agreed that our Department should provide the Committee with a report on the origins of the authority under which we provide hospitalization for veterans whose disability bears no relationship to wartime military service.

The responsibility of the state for the treatment of disabilities which have resulted from wartime service has been recognized since the early days of World War I. The Military Hospitals Commission was established in June, 1915 for this purpose. The responsibility is still being met at the present time.

Authority for the Department of Veterans Affairs or its predecessors to provide such treatment is contained in a number of Orders in Council. Until 1924, all these Orders limited the authority to the remedial treatment of service-incurred disabilities. P.C. 1653, dated 18 September, 1924 (Appendix "A"), provided authority for the provision of domiciliary care to pensioners with 20% or greater disability pensions, who had in addition a non-service disability which in total prevented remunerative employment, and who were unable to pay for such accommodation at their own expense.

The concept of provision of treatment for disabilities not related to military service had its real beginning in 1928. P.C. 1842, dated 18 October, 1928 (Appendix "B"), gave the Department authority to treat veterans who were disability pensioners, for disabilities not attributable to service, provided the veterans are unable to provide treatment at their own expense. P.C. 91, dated 16 January, 1936 (Appendix "C"), specified that such treatment would be confined to active remedial treatment, and would not be provided for chronic disease.

Until 1944, the treatment of disabilities not related to service was confined to indigent veterans who were also in receipt of a disability pension. In April, 1944, a Committee, headed by Brigadier Ross of the Canadian Legion, recommended an extension of benefits. P.C.1/4465, dated 13 June, 1944 (Appendix "D"), allowed the provision of active remedial treatment of non-service

diseases for veterans who saw meritorious service in a theatre of actual war or who were recipients of War Veterans Allowance.

Restrictions on the treatment of chronic disease were removed by P.C. 1953-415, dated 19 March, 1953 (Appendix "E"). Departmental records indicate pretty clearly that this step was taken in order to keep veterans hospitals relatively full and staff usefully occupied.

As a general comment, it should be borne in mind that the advent of government-supported hospital insurance throughout the country has changed significantly the nature of the problem to be faced with regard to the hospitalization of War Veterans Allowance recipients. The Department, of course, pays the insurance premiums, where applicable, for these recipients but all other hospitalization charges are paid for by the insurance plan whether the recipient is hospitalized in a D.V.A. institution or in a general community hospital.

I trust that the above, together with the appendices hereto, will provide you and the other members of the Committee with the information that was sought on October 20th.

Yours sincerely,
Paul Pelletier.

APPENDIX 2

AUDITOR GENERAL OF CANADA

OTTAWA, December 1, 1964.

Dear Mr. Baldwin,

At the last meeting of the Public Accounts Committee on November 17th, questions were asked by Messrs. Winch, Ryan, Cardif, Leblanc and Rock concerning the manner in which gold is handled by the Royal Canadian Mint. I undertook to secure the desired information and advise the Committee. This has been done and the subject matter of all of the questions dealt with in an explanatory memorandum which I am attaching for your review and tabling at the next meeting of the Committee.

At the same meeting of the Committee, Mr. Ryan asked if my report on our examination of the stock of stationery, printing materials and supplies, made to the Minister of Industry could be placed on the record in order that members might take note of the manner in which the work was carried out and how it is reported upon each year pursuant to section 34 of the Public Printing and Stationery Act. Accordingly I am pleased to enclose herewith a copy of my report to the Minister of Industry dated August 8, 1963 with respect to inventories on hand as at March 31, 1963.

There remains a further question to be answered arising out of the Committee's meeting on November 17, 1964. This had to do with Mr. Cardif's inquiry as to whether or not there is a limit to the amount of stationery that a Member may acquire. I replied that I would wish to check this and would advise the Committee. I will be sending this information to you as soon as it is available.

Yours sincerely,
A. M. Henderson.

G. W. Baldwin, Esq., Q.C., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa.

ROYAL CANADIAN MINT

The Royal Canadian Mint receives gold for two purposes, one classified as gold storage, the other as gold purchase.

Gold Storage is sent in by Mining Companies to be further refined and returned to the owners. It receives its name from the fact that it may be held for some time. The Mint collects fees for this service which is performed in accordance with regulations established by the Governor in Council P.C. 1961-532, April 13, 1961.

Gold Purchase represents gold bullion sold to the Mint by the Mining Companies. All producers receive a subsidy under the Emergency Gold Mining Assistance Act R.S. c.95 as amended when they sell their product to the Royal Canadian Mint or when it is exported from Canada in the form of ore concentrates. The particular section (Section 3(1) of Chapter 28, 1960 an amendment to c.95) reads as follows:

"3. (1) The Minister may pay to a person engaged in operating a gold mine a sum not exceeding an amount calculated in the manner prescribed in this section with respect to gold that is produced from the mine during a designated year and that, during the designated year,

(a) is sold to Her Majesty at the Royal Canadian Mint,
or

(b) is exported from Canada, in the form of ore or ore concentrates containing gold, and sold."

All transactions relative to the Purchase Account are processed through an Open Account the details of which are on page 11:26 of the Public Accounts for 1962-63.

When the gold is received at the Mint it is called a deposit and it is at once ticketed, numbered, etc. In the 1963 calendar year 5,421 such deposits were received. Assay reports identified with the deposits follow the course of the gold through the various stages of melting and refining until it becomes granulated or a bar. There is also a quantity of gold received in the form of scrap (jewellery and dental). After it is assayed, melted down and refined, the owner receives payment from the Mint.

In the audit all gold is weighed and/or counted taking into consideration the assay reports, deposits, etc.

Nearly all the gold in the Purchase Account is sold to the Bank of Canada for the Exchange Fund Account. There are no gold coins minted. The last \$5 and \$10 gold coins were minted in 1914 and the last British sovereigns in 1919. Gold medals may be struck for Associations, etc. Dental firms purchase their supplies from mining companies.

Stocks of gold may pile up at the Mint until the Bank of Canada request further shipments. However, the Mint cannot wait until the order comes in. They buy gold when and as, it is offered to them. That is the purpose of the Open Account.

The disposition of gold refined by the Mint, in the calendar year 1963 classified as Gold Storage and Gold Purchase is as follows:

STANDING COMMITTEE

GOLD STORAGE ACCOUNT

1963

	Fine Ounces
Fine gold on hand 1 January 1963	36,925:421
Receipts during year	803,908:769
	<hr/>
	840,834:190
Less: disposition per owners' instructions	811,774:023
	<hr/>
Fine gold on hand 31 December 1963	29,060:167
	<hr/>

GOLD PURCHASE ACCOUNT

1963

	Fine Ounces
Fine Gold on hand 1 January 1963 ..	165,861:525
Add:	
Receipts during the year	2,653,182:870
Gain on operations	1,614:000
	<hr/>
	2,654,796:870
	<hr/>
	2,820,658:395
Less:	
6,621 trade bars transferred to Ex- change Fund Account	2,644,703:576
Sales of fine gold	19:264
Trial plate for assay purposes	6:170
Medals, etc.	15:442
Sweep	7,777:437
Sales to sundry depositors	3,258:247
	<hr/>
	2,655,780:136
	<hr/>
Fine gold on hand 31 December 1963 .	164,878:259
	<hr/>

HOUSE OF COMMONS
Second Session—Twenty-Sixth Parliament
1964-65

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. G. W. BALDWIN

PROCEEDINGS

No. 29

Including
NINTH REPORT TO THE HOUSE
respecting the form and content
of the Public Accounts

WEDNESDAY, March 10, 1965

WITNESS:

Mr. H. R. Balls, Comptroller of the Treasury.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. P. Tardif

and Messrs.

Berger,	Gray,	Pilon,
Cameron (<i>High Park</i>),	Grégoire,	Prittie,
Cardiff,	Hales,	Regan,
Choquette,	Harkness,	Rinfret,
Côté (<i>Chicoutimi</i>),	Horner (<i>Acadia</i>),	Rock,
Crouse,	Leblanc,	Rondeau,
Danforth,	Legault,	Ryan,
Drouin,	Lessard (<i>Saint-Henri</i>),	Smith,
Dubé,	Loiselle,	Southam,
Fane,	Mandziuk,	Stefanson,
*Fisher,	McLean (<i>Charlotte</i>),	Stenson,
Forbes,	McMillan,	Stewart,
Francis,	Muir (<i>Lisgar</i>),	Tucker,
Frenette,	Nowlan,	Wahn,
Gendron,	O'Keefe,	Whelan,
Grafftey,	Pigeon,	Winch—50.

M. Slack,

Clerk of the Committee.

* Replaced by Mr. Saltsman on February 24, 1965.

ORDER OF REFERENCE

WEDNESDAY, February 24, 1965.

Ordered.—That the name of Mr. Saltsman be substituted for that of Mr. Fisher on the Standing Committee on Public Accounts.

Attest.

LEON-J. RAYMOND,
The Clerk of the House.

REPORT TO THE HOUSE

MONDAY, March 15, 1965.

The Standing Committee on Public Accounts has the honour to present its

NINTH REPORT

1. Your Committee appointed a subcommittee on the form and content of the Public Accounts on July 23, 1964, consisting of the following members under the chairmanship of Mr. S. P. Ryan: Messrs. Pilon, Southam, Prittie, Stefanson, O'Keefe, Cameron (*High Park*) and Rondeau. This subcommittee made a review of the form and content of the Public Accounts of Canada, during the course of which it consulted with the Comptroller of the Treasury and the Auditor General.

2. This subcommittee reported to your Committee in part as follows:

- (a) Your subcommittee has considered the form of the Public Accounts from the standpoint of clarity and conciseness of presentation, with particular emphasis on the needs of Members of Parliament and the public. It has reviewed the contents from the standpoint of necessity or relative importance of the material and the advisability of including it in the Public Accounts rather than in other documents, such as annual departmental reports.
- (b) In carrying out its assignment, your subcommittee has been guided throughout by the statutory requirements of the Financial Administration Act; it has also had in mind the comments and recommendations contained in the Fourth Report of the Standing Committee on Public Accounts tabled in the House of Commons on December 19, 1963, the report of the Glassco Royal Commission on Government Organization, the reports of the Auditor General and the June 1950 report of the United Kingdom Committee on the Form of Government Accounts, as summarized in the study paper attached to this report.
- (c) During the course of its consideration of possible deletions of detailed information from the Public Accounts, your subcommittee was informed that any information so deleted would continue to be available to Members of Parliament on request.
- (d) Your subcommittee is of the view that the form of the Public Accounts should be such as to facilitate the scrutiny of revenues in relation to tax and revenue laws, and of expenditures in relation to the Estimates and Appropriation Acts by Members of Parliament, the Public Accounts Committee and the public. It concurs in the recommendations of the Glassco Royal Commission on Government Organization that the form of the Public Accounts should be clear and uncluttered and that details should not be permitted to obscure matters of real importance, and of the United Kingdom Committee on the Form of the Government Accounts that the published accounts should serve to inform the public, as promptly and plainly as possible, of the essential facts about the national finances. Your subcommittee, moreover, notes with interest that the United Kingdom financial reports make no reference to the salaries or

travelling expenses of individual officers and employees, or to payments to contractors or descriptions and amounts of construction projects.

- (e) The Public Accounts of Canada for 1962-63 consists of three volumes comprising 1,430 pages (French version 1,459 pages) divided approximately as follows:

Volume I

Summary report and financial statements, 268 pages (French 277 pages)

Volume II

Details of expenditures and revenues by departments

1,006 pages
(French 1,026 pages)

Volume III

Financial statements of Crown Corporations 156 pages
(French 156 pages)

- (f) With a view to presenting more significant and relevant information to Parliament, your subcommittee gave consideration to
- (i) information that might be deleted in its entirety from the Public Accounts;
 - (ii) information that might be replaced by statements in summary form;
 - (iii) material that might be deleted from the Public Accounts if comparable information were to be included in the annual departmental or other reports; and
 - (iv) additional information that might usefully be included in the Public Accounts."

RECOMMENDATIONS FOR DELETION

3. Based on the above findings and observations, your Committee recommends that the following information be deleted from Volume II of the Public Accounts:

	Estimated savings
(a) listings of salary rates and travelling expenses of employees (Section 38)	92 pages
(b) listings of payments to suppliers and contractors (Section 39)	65 pages
(c) listings of names of persons on educational leave (e.g., Section 1.4). (See also para. 15)	3 pages
(d) listings of construction or acquisition of buildings, works and land by area, region, etc. (e.g., Section 7.11)	12 pages
(e) statements of assistance to gold mining companies (Section 19.15) on the understanding that the information continues to be included in the departmental report	5 pages
(f) statement of expenditures by staff post offices for salaries, etc., and statement of expenditures by postal districts and services (Section 27.4 and 27.8)	3 pages
(g) listings of contracts for construction or acquisition of buildings, etc., when the amount is less than \$100,000, and for cost plus contracts under \$10,000. The present listings are for amounts of \$10,000 or over (\$25,000 or over for defence contracts) and \$5,000 or over for costs plus contracts (e.g., Section 31.61 and Section 35.34)	149 pages
(h) distribution of expenditures by services and units of the Standards Branch (Section 34.7)	1 page
	<hr/> 330 pages <hr/>

Your Committee further recommends that listings of the travelling expenses of employees in excess of \$1,000 and of payments to suppliers and contractors in excess of \$100,000 be prepared annually for the information of the Committee.

4. Your Committee recommends that the following detailed information be replaced by statements in summary form:

	Estimated savings
(a) listings of professional fees by type of service, together with detailed listings of professional fees of \$2,000 and over (e.g., Section 1.13)	9 pages
(b) detailed listings of the acquisition of equipment; to be replaced by summarized listings according to type of equipment (e.g., Section 1.9)	8 pages
(c) details of expenditures for general elections and by-elections by electoral districts; a summary by provinces to be retained (Section 6.4)	12 pages
(d) listings of doctors receiving fees of \$1,000 or over and hospitals receiving \$5,000 or over; to be replaced by a summary by categories of service (e.g., Section 23.39) ..	5 pages
(e) details of expenditures by provinces and districts re any census of Canada; to be replaced by a summary listing by provinces (Section 34.9 to 34.38, 1961-62 Public Accounts)	28 pages
(f) listing of salaries of Judges by Courts; to be replaced by a summarized statement of salary rates (Section 16.4 and Section 16.5)	1 page
(g) distribution of revenues and expenditures by Penitentiaries; to be replaced by a statement by institution showing (1) revenue and (2) expenditure on (a) operation and maintenance and (b) construction, improvements and equipment (Section 16.17)	2 pages
	<hr/> 65 pages <hr/>

5. Your Committee recommends that the following material be deleted from the Public Accounts if and when substantially similar information is published in the annual reports of the appropriate departments:

	Estimated savings
(a) statements of payments of general health grants to provinces from inception (Section 23.8)	2 pages
(b) listing of grants to agricultural fairs, exhibitions, etc., (e.g., Section 1.19)	2 pages
(c) details of health grants (Section 23.10 to 23.28)	19 pages
(d) details of hospital construction grants (Section 23.20 to 23.37)	7 pages
	<hr/> 30 pages <hr/>

6. In making the foregoing recommendations regarding the deletion of information from the Public Accounts, your Committee understands that the information so deleted would continue to be retained in the accounting records maintained in the Office of the Comptroller of the Treasury and would ask the Minister of Finance to take the necessary steps to ensure that it would be available to Members of Parliament on request.

7. Your Committee has been informed that the cost of printing a page of the Public Accounts is \$25. The recommended deletions would eliminate approximately 400 pages from each of the English and French versions, with a resulting saving in printing costs alone of some \$20,000.

RECOMMENDATIONS FOR REARRANGEMENT OF INFORMATION

8. Your Committee recommends that in Volume I the explanatory notes to the schedules to the statement of assets and liabilities, which are now presented immediately following the schedules to which they refer, be grouped together and printed at the end of the schedules, with appropriate reference to the schedule and item, e.g., for Item 1 of schedule M, the note would be described as M-1, etc.

RECOMMENDATIONS FOR THE INCLUSION OF ADDITIONAL INFORMATION

9. Your Committee gave consideration to the inclusion of additional important information in the Public Accounts along the lines suggested by this Committee and the Auditor General.

10. In its Fourth Report 1964, presented to the House on July 28, 1964, in paragraphs 30-32, this Committee requested the Auditor General to keep it informed as to the progress of a study being made for the purpose of having all costs of financial assistance to persons on educational leave assembled in one place so that Parliament might be better informed as to the total cost of this particular phase of the educational programme designed to increase the capacity of public servants. Your Committee expresses the hope that this study will be completed shortly so that the total educational leave costs may in future be shown with respect to each department in Volume 2 of the Public Accounts, commencing with that for the fiscal year 1964-65.

11. In its Sixth Report 1964, presented to the House on October 20, 1964, in paragraph 26, the Committee recorded its agreement with the Auditor General's observation that it would be informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts of Canada each year. Following consideration of this recommendation by the Comptroller of the Treasury, your Committee was pleased to be advised by the Comptroller of the Treasury that arrangements are under way for the inclusion of such a summary in the Public Accounts effective for the fiscal year 1964-65.

12. Your Committee recommends that the following additional information suggested by the Comptroller of the Treasury be included in the Public Accounts:

- (1) In Volume II, the overall summaries of expenditures and revenues by departments to be published at the beginning of the volume, the totals of which would agree with the amounts included in the Statement of Expenditure and Revenue shown in Volume I.
- (2) In Volume II, for each department there be included a statement similar to that now presented in the Estimates, showing the approximate or estimated value of major services provided to the department, the cost of which is not included as a charge to the departmental appropriations. This statement would include:
 - (a) accommodation provided by the Department of Public Works or in the department's own buildings;
 - (b) accounting and cheque issue services provided by the Comptroller of the Treasury;

- (c) contributions to the Superannuation Account charged to the Department of Finance appropriations;
 - (d) employee surgical-medical insurance premiums charged to Department of Finance appropriations;
 - (e) employee compensation payments charged to Department of Labour appropriations; and
 - (f) carrying of franked mail by the Post Office Department.
- (3) A similar statement showing the services provided to other departments for which no reimbursement is received also to be included for each department.

13. The above plan to include a statement in each departmental section showing the approximate or estimated value of major services provided without charge is only a preliminary step. It is understood that the ultimate aim would be to apportion these service costs to the relevant votes or services.

14. Your Committee recommends that the following additional information suggested by the Auditor General be included in Volume II of the Public Accounts:

- (1) effective for the fiscal year 1964-65, a statement of all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal by Crown Assets Disposal Corporation; and
- (2) effective for the fiscal year 1964-65, a statement detailing the amount of losses incurred as a result of the accidental destruction of or damage to assets which would normally be covered by insurance had such coverage existed.

15. Your Committee recognized in the course of the discussions with the Comptroller of the Treasury and the Auditor General that the possibility exists that the inclusion of further additional information in the Public Accounts might be desirable from time to time and endorses their suggestion that this be placed in the Public Accounts by the Comptroller or be brought forward by the Auditor General for discussion and consideration by this Committee.

16. Attached to this report is a copy of a study paper prepared by the Comptroller of the Treasury for the use of the subcommittee and which forms part of this report.

17. Your Committee expresses its sincere appreciation to the Comptroller of the Treasury, the Auditor General, and their officials for their patient and expert advice and assistance throughout its deliberations.

A copy of the relevant Committee proceedings is appended.

Respectfully submitted,

G. W. BALDWIN,
Chairman

STUDY PAPER PREPARED BY THE COMPTROLLER OF THE TREASURY

The Financial Administration Act

1. Sub-section 1 of section 64 of the Financial Administration Act requires that an annual report, called the "Public Accounts", shall be laid before the House of Commons by the Minister of Finance on or before the 31st day of December, or if parliament is then not in session, within fifteen days after the commencement of the next ensuing session. Sub-section 2 provides that the Public Accounts shall be in such form as the Minister may direct and shall include:

- (a) a report on the financial transactions of the fiscal year;
- (b) a statement certified by the Auditor General of the expenditures and revenues of Canada for the fiscal year;
- (c) a statement certified by the Auditor General of such of the assets and liabilities of Canada as in the opinion of the Minister are required to show the financial position of Canada as at the termination of the fiscal year;
- (d) the contingent liabilities of Canada; and
- (e) such other accounts and information as are necessary to show, with respect to the fiscal year, the financial transactions and financial position of Canada, or are required by any Act to be shown in the Public Accounts.

2. Recently, recommendations have been made by the Auditor General, the Public Accounts Committee and the Royal Commission on Government Organization that changes be made in the form of the Public Accounts. Moreover, in the United Kingdom in 1950, the Committee on the Form of Government Accounts considered and reported on the matter. These recommendations and reports are summarized in the paragraphs that follow.

The Auditor General's Report

3. The Auditor General in his Report to the House of Commons for the fiscal year ended March 31, 1963, suggested that further consideration should be given towards summarizing or otherwise reducing the number of detailed listings now included in the Public Accounts and, on the other hand, additional information should be disclosed in the Public Accounts.

Fourth Report of the Public Accounts Committee

4. In its Fourth Report, tabled in the House of Commons on December 19, 1963, the Standing Committee on Public Accounts made the following comments with respect to "The Form of the Public Accounts".

11. The Committee expressed satisfaction that the Public Accounts volumes for the fiscal year ended March 31, 1961, had been arranged in the manner recommended by the Committee in its Fifth Report 1961 and that these improvements had been continued in the Public Accounts for the year ended March 31, 1962.

12. The Committee noted that further consideration might be given to summarizing or reducing a number of the detailed listings in the Public Accounts so as to present more significant and relevant information to Parliament. It also felt that consideration might usefully be given to the inclusion of additional important information along lines suggested by the Auditor General.

13. As time has not permitted consideration of the foregoing by any sub-committee convened for the purpose, the Committee recommends that this be undertaken during the next session of Parliament.

Recommendations of Royal Commission on Government Organization

5. The Glassco Royal Commission on Government Organization also considered the form and content of the Public Accounts. After referring to the recommendations of the 1961 Public Accounts Committee, it reported as follows:

38. The Public Accounts were improved by the changes, but acceptance of the proposed new form of the Estimates would make further improvements possible. However, the explanatory sections for each vote in the Estimates would not need to be repeated in the Public Accounts.

39. Furthermore, excessively detailed listings are now given of payments to Members of the Senate and the House of Commons, to civil servants receiving \$8,000 or more per annum and to suppliers and contractors paid \$5,000 or over (\$25,000 in the case of National Defence). This parochial practice is expensive and has outlived any usefulness.

40. Details of items not shown separately in the Estimates should be presented only to explain significant variations between appropriations and expenditures, or between revenues forecasted and realized. Unless the following information is sufficiently important to be detailed in the Estimates, it should be deleted from the Public Accounts:

- (a) allotments maintained solely for operating purposes;
- (b) construction and other contracts;
- (c) purchases of land;
- (d) grants and other assistance payments and
- (e) listings of other payments, including salaries, traveling expenses, professional fees, educational leave, names of suppliers and contractors.

40. The Public Accounts is not a control document, but a means of reporting to Parliament on the financial stewardship of departments and the Executive, and on the essential facts about the national finances. The incorporation of much of the detail now included cannot be justified on the grounds that the publication of such information acts as a restraint on individuals in the public service. The remedy lies in a revision of existing internal controls. The Auditor General's report on extravagance and abuses within the public service is more likely to be effective.

43. The form of the Public Accounts should be clear and uncluttered. Details should not be permitted to obscure matters of real importance. The present form lays such stress on details that it is exceedingly difficult to separate the wheat from the chaff.

44. The annual reports of departments and agencies include financial statements, but these do not often duplicate the Public Accounts since they reflect the natural divisions of departments. The statements of many agencies and at least one department are prepared on an accrual basis. These annual reports have often narrative and statistical detail supporting the financial information in order to explain the department's programmes.

45. In the Public Accounts, greater use should be made of tables, with explanatory notes where necessary to aid interpretation.

52. The recommended elimination of material from the Public Accounts is not designed to withdraw useful information from parliamentary review, but rather to reduce the bulk of the document so that an accounting can be rendered in a clear, concise manner that conforms to the highest standards of financial reporting. Furthermore, by eliminating unnecessary detail, more useful information might be added which would be of value to Parliament and would provide a better accounting in areas now inadequately covered.

53. For example, many departments carry on operating activities, and the appropriation accounts kept on a cash basis do not adequately reflect the financial results of these activities. This has been partially corrected in some instances by the use of revolving funds, which are described in the next chapter, but these funds usually record only direct costs with no provision for departmental overhead or the amortization of capital costs.

54. In this report, your Commissioners have recommended the adoption of accrual accounting for department purposes, but it is not recommended that the government's accounts be altered from the present cash basis. Therefore, the appropriation accounts will continue to be reported on a cash basis in the Public Accounts.

55. However, the costs of individual activities can now seldom be determined from the Public Accounts. The adoption of programme budgeting and accrual accounting, and the inclusion of the costs of services now provided free by other departments, will permit financial results to be presented in a manner similar to that followed in commerce and industry. The form of such statements is clear, concise and widely understood. Presentation of departmental accounts in this form will provide Parliament with information of far more value than any of the material that your Commissioners suggest be deleted.

The U.K. Committee on the Form of Government Accounts

6. In November 1947, the United Kingdom Government appointed a Committee on the Form of Government Accounts. In its final report, published in June 1950, the Committee discussed the purpose of government accounts.

" . . . government accounts are called upon to serve a variety of purposes, some of which could never have been envisaged when the present system was designed. Accordingly, we think it well to set out the various purposes to which our attention has been directed. They fall into five groups:

- (a) first and foremost is the provision of what may be called "accountability" accounts, that is to say records suitably devised for the scrutiny of receipts and payments in relation to the estimates, by the Public Accounts Committee, the Comptroller and Auditor General, the Treasury and the responsible officers in the various departments, in order to ensure the authenticity of each item and its accordance with the sanctioning of parliament. This is the basic requirement of all government accounting, and it is a necessity for a democratic order that nothing be done to impair the means of control exercised by the House of Commons over public spending.
- (b) Secondly, the published accounts should serve to inform the public, as promptly and plainly as possible, of the essential facts about the national finances. For reasons already indicated, this objective has grown in importance, particularly in the last forty years, but for

associated reasons, it has become all the more difficult to fulfil. A fundamental part of the problem is how to achieve simplicity in final accounts representing a great complexity of operations.

- (c) Thirdly, some critics argue that it is not enough, when expenditure has reached the scale recorded in modern times, to ensure that nothing is spent without parliamentary authority. The Accounts of a given department, they suggest, should also be so designed as to furnish material on which the responsible officers of that department, and of the Treasury can judge whether a particular service is being provided at the minimum cost within the requirements of efficiency.
- (d) Fourthly, as in business, so in government, accounting material is now-a-days thought to have useful qualities as one of the guides available in formulating policy and carrying it out. The acceptance by government of responsibility for maintaining healthy conditions in the national economy—particularly for securing a “high and stable level of employment”—and the scale or range of government operations make it imperative that close watch should be kept upon the immediate and secondary effects of government outlays, the raising of revenue, borrowing or the repayment of debt. In this process, much reliance must be placed upon analysis of government accounts.
- (e) Finally, more advanced requirements are being urged in the interest of skilled interpretation of the position and prospects. For our part, we accept it as desirable that experts outside the government service should be provided with material adequate for analysis of past events and current trends and assessments of the future. As to the past events and current trends, two particular demands should be noted: that of the monetary analyst, to whom cash movements and the influence of government operations on monetary conditions are of primary importance; and that of the more general economist concerned with such matters as the maintenance of equilibrium between saving and capital investment, and the amount of new investment at home or abroad undertaken by the government or its agencies. As to the future, it is argued—primarily in the interests of a regard for the taxable capacity of future generations and the burdens to be borne by them—that a system of accounts should be installed which would assess and display clearly the capitalized long-term and other deferred liabilities of the government (including actuarial computations of pension and similar commitments). Indeed, some would go further and advocate also the recording of fluctuations in the current value of government assets of every kind.”

7. The United Kingdom Committee went on to point out that the mere recital of these groups of purposes—whether or not every one of the questions asked of government accounting is capable of satisfaction in any manner that will convey a definable meaning—is sufficient to engender grave doubts whether all of them could be met by the automatic outcome of a single set of accounting processes and records. It noted that it had been pointed out to it that while an accurate account, subject to audit, is indispensable for the purposes of parliamentary control, what may be called accounting statistics are sufficient for some other purposes.

8. The United Kingdom reports present a concise accounting for expenditures from parliamentary grants. Moreover, and perhaps of greater importance,

they are designed to give Members of the House of Commons information on matters that they might wish to have studied in more detail in the course of the deliberations of the Public Accounts Committee. On the premise that the annual financial report should not only present an adequate accounting of parliamentary grants, but should also point out any unusual features resulting from the administration of those grants, some of the features that the United Kingdom report brings to attention are

- (1) explanation of the causes of variations between expenditures and grants;
- (2) notes on particular features of the accounts;
- (3) accounts of grants-in-aid and funds;
- (4) details of loans, gifts, extra contractual payments, ex gratia awards and unvouched expenditures;
- (5) losses and compensation payments; and
- (6) write-offs and claims abandoned.

9. On the other hand, the United Kingdom report makes no reference to the salaries or travelling expenses of individual officers and employees, payments to contractors, or descriptions and amounts of construction projects.

MINUTES OF PROCEEDINGS

WEDNESDAY, March 10, 1965
(43)

The Standing Committee on Public Accounts met this day, *in camera*, at 9.35 a.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Cardiff, Forbes, Francis, Harkness, Leblanc, Muir (*Lisgar*), O'Keefe, Nowlan, Regan, Ryan, Stefanson, Tucker, Wahn (14).

In attendance: From the office of the Comptroller of the Treasury: Mr. H. R. Balls, Comptroller of the Treasury; Mr. Walter Johnson, Director, Accounting Services Branch and Mr. J. S. Sutherland, Chief of the Public Accounts Division. And Mr. G. A. Long, Acting Auditor General.

Mr. Baldwin made an oral report of the meeting of the steering subcommittee of February 23 and advised that the Auditor General would submit a "follow-up" report to the Main Committee, and also that if time permitted, officials of the St. Lawrence Seaway Authority would be called.

The Committee resumed consideration of the "draft" report presented by the subcommittee on form and contents of the Public Accounts.

The Chairman called Mr. Balls, who in turn introduced his officials, Messrs. Johnson and Sutherland.

Mr. Balls made a statement relating to the background of the study by the subcommittee, and was examined thereon.

At 11.00 a.m., the consideration and amendment of the "draft" report still continuing, the Committee adjourned until 3.30 o'clock this afternoon.

AFTERNOON SITTING (44)

The Committee resumed, *in camera* at 4:00 p.m. The Chairman, Mr. G. W. Baldwin, presided.

Members present: Messrs. Baldwin, Berger, Cardiff, Côté (*Chicoutimi*), Forbes, Leblanc, Legault, Mandziuk, Muir (*Lisgar*), O'Keefe, Nowlan, Pilon, Rondeau, Ryan, Saltsman, Stefanson (16).

In attendance: Same as at morning sitting.

The Chairman introduced Mr. Saltsman, a new member of the Committee.

The Committee resumed discussion of the "draft" report on the form and content of the Public Accounts with Mr. Balls supplying additional information, and following its consideration and amendment, was adopted and the Chairman ordered to present it to the House as the Committee's Ninth Report.

The Chairman thanked the members of the subcommittee for their diligent efforts.

At 4:30 p.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

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1964/65 Minutes of proceedings and
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